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Higher education cost leads to increased education debt

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INTRODUCTION

A college education is a rite of passage for many young adults in the United States. The rate of college attendance by high school graduates has been growing steadily for more than 20 years. More than six in ten high school graduates now continue their education after high school. At the close of twentieth century, higher education appears to be more important than ever to our economy and our competitive position in the world, and to an individual's chances of sharing in U.S. prosperity. In an era of increasing income inequality, strengthening and broadening educational opportunities is key not only to economic growth but also to narrowing the gaps between rich and poor.

While the percentage of high school graduates attending college has grown, so has the cost of attending college. The cost of higher education is skyrocketing beyond the reach of many parents and students. Parents used to begin savings for college when children reached high school. College expenses were paid from these savings and current income. Today, college costs are rising faster then average income, requiring parents or students to draw more from their savings or take out long-term student loans. A family's ability to afford college is becoming increasingly important in college admissions and attendance decisions by colleges and students. To finance higher education in Nevada, parents and students can take advantage of the Nevada Pre-paid Tuition Plan, Millennium Scholarship and Student Financial Aid. The purpose of this research paper is to examine student financial aid and compare it with pre-paid tuition plans and to discuss Millennium scholarship opportunities for students graduating from Nevada high schools.

LITERATURE REVIEW

Brief History of Financial Aid

Prior to the creation of the Servicemen's Readjustment Act, or GI Bill of Rights in 1944, there was no broad-based financial aid program that supported college access to low- and middle-income student in the United States[1]. Parents and students bore most of the burden of postsecondary expenses. The only financial assistance available came mostly from college themselves. Although the GI Bill served veterans exclusively, it was the first federal effort that recognized the economic and social importance of expanding higher education access to a greater number of Americans. It was also national defense strategy.

While some foreign power had been disarmed at the end of W.W.II, new "aggressors" such as the Soviet Union, was considered growing threats to U.S. security. What the GI Bill started in the 1940s, the National Defense Education Act (NDEA) continued after its passage by Congress in 1958. Through the creation of low-interest loan programs for needy students, the NDEA was developed, in part, to ready American youths for the race to space-and other technological advances.

The second generation of financial aid programs started in the 1960s when equal opportunity became the focus of education policy. With the creation of President Lyndon Johnson's "Great Society" programs, federal student aid again expanded education access, but this time the prime objective was increasing educational opportunity for all Americans, rather than defending national security. Beginning with the College Work-Study Program in 1964, a number of new financial aid programs were launched over the

next few years. As part of Higher Education Act (HEA) of 1965, the Guaranteed Student Loan Program-currently the largest student aid program in usage and dollar volume-was created, along with several other grants and specialized loan programs.

In 1972, the Basic Educational Opportunity Grant Program (BEOG) renamed the Pell Grant in 1980 after Senator Claiborn Pell (D-RI), a long-time advocate for low income students marked an even stronger commitment on the part of the Congress to provide lower-income and minority students with expanded access to higher education through grants instead of loans.

Six years later, in 1978, the focus on low-income students became a secondary concern as Congress responded to pressure from middle-income voters who wanted student aid programs expanded to benefit families in their tax bracket. As an alternative to providing tax credits, Congress passed the Middle Income Student Assistance Act (MISAA) which expanded eligibility to the guaranteed student loans (GSLs) to families at any income level.

Gary Orfield, a professor of Education and Social Policy at Harvard University, comments on the shift that occurred after the implementation of the 1978 legislation. By the 1980s, he notes, financial aid to the middle-class for tuition assistance "was widely seen as a right," making it all the more difficult for the legislature to direct a greater percentage of student aid to the most needy.

Through its broad availability to families at any income level, MISAA supported a significant jump in loan volume in the early 1980s. In the 1978-79 academic year, federal student loan volume totaled $ 2.9 billion. A year later, volume climbed to $4.8

billion. Another surge in 1980-81 brought the annual volume to $7.8 billion. This was primarily the result of "Reaganomic" budget cuts that reduced other forms of aid such as grants, and the extension of the Parent Loan to Undergraduate Students, or PLUS program, to independent and graduate students.

In 1981, low-income students again suffered the consequences of a student aid policy guided by politics. The Federal Government continued to cut federal revenues that leaving insufficient funds for grants and other non-loan aid. It was politically dangerous for Congress to limit aid to middle-income taxpayers, so the only remaining targets were the low-income assistance programs, such as the Pell Grant.

By 1984-85, Guaranteed Student Loan (GLS) volume had increased 43%, reaching $8.9 billion; this was nearly five times the GSL volume seen only seven years earlier in 1977-78. In less than ten years, the GSL had jumped from 13% of all federal appropriations for student aid in 1978 to 43% of appropriations in 1986.

It was in the mid-1980s that the growing loan volume and debt levels of student borrowers began to be more widely recognized and publicized as an issue the higher education community should monitor carefully. While ironically, in the early days of the federal loan programs the concern was that students would be skittish to borrow for college, and banks wary to lend to student, by the mid 1980s these were no longer issues. At this point the debate began to focus on whether students were borrowing too much. As John B. Lee, then with the National Association of College Admissions Counselors, described in 1985, federal student loans presented a paradox: they were concurrently as

asset in the form of a student subsidy for postsecondary education, and a liability on the future earnings of borrowers.

Economic and political pressures to address the budget deficit and reduce expenditures again became a primary driver in federal financial aid policy. The Reagan Administration and the Republican majority in the Senate pointed to the supposed wastefulness of the grant and loan programs, which were deemed to have gone further than necessary in providing equal opportunity to higher education for needy families. Even eligibility for middle-income families was tightened as part of the 1986 Reauthorization of Higher Education Act (HEA). The reauthorization of student aid program in 1986 altered the governance of the programs, the structure of need analysis and aid delivery, and, ultimately, the basis for evaluating the effectiveness of need analysis and delivery. Congress took significant steps by prohibiting the Secretary of Education from issuing regulations related to either the Pell Grant or Congressional Methodology (CM) formulas[2]. This change is largely the result of modifications in the Stafford Student Loans that have restricted eligibility. Any undergraduate student whose family income was less than $30,000 qualified automatically for a maximum Stafford Loan. Families above this income level were eligible only if they could show financial need, but need could be calculated by a formula that excluded parental assets from consideration. After 1986-87 all Stafford Loan eligibility was based on need, and need analysis included a review of parental assets. By 1990-91, GSL annual volume had reached $ 13.5 billion. In comparison, twenty years before, in 1970-71, GSL loan volume equaled $ 1.2 billion. The Reauthorization of the Higher Education Act in 1992 once

again returned to a MISAA-type expansion of eligibility for families by enabling students from any income background to borrow GSLs, now called Stafford Loans after Senator Stafford (D-VT), who was a consistent defender of the federal student aid programs. Even though there had been talk prior to the 1992 Reauthorization of making Pell Grants an entitlement, or at the very least substantially expanding annual limits, budgetary and deficit pressures overrode all efforts to expand access to lower-income students. Instead, the policy focus shifted to addressing ways to cut federal costs, such as getting tougher on defaulters, reducing the federal commitments to minority scholarships, and raising loan limits.

Just at the MISAA precipitated a sharp increase in student loan volume after 1978, the 1992 Reauthorization mirrored the jumps seen during that first wave of expanded middle-income access. Between 1992-93 and 1993-94, federal support to the student loan programs increased 34%, with the total number of loans growing from 5.3 million to 6.4 million in a single year. Since 1990-91, loan volume has virtually doubled, from $ 13.5 billion in 1994-95.

More recently, the Student Loan Reform Act of 1993-part of the Omnibus Budget Reconciliation Act brought more changes to the federal student loan programs, spurring another dramatic shift in education policy.

The Clinton Administration believes that providing student loans directly through Treasury borrowing-rather than through the private sector as it has been done since 1965- will make the student loan programs less expensive to run. Hence, the creation of the Federal Direct Loan Program. While some schools are giving direct loans good marks for

effort, many institutions, wary of a program fully administered and funded by the government, have hesitated to embrace Federal Direct Loans. About 75% of 4-year colleges and universities have remained with guaranteed loan program, currently called the Federal Family Education Loan (FFEL) Program (e.g., Morino 1991).

As Congress works through budget cutting measures that attempt to yield a zero deficit by 2002, proposals have been introduced to cap direct loans at anywhere from 5% to 40% (e.g., Octameron 1999). Regardless of whether one or two education loan delivery systems remain, federal student aid policy is generally headed in the same direction. Deficit busting activity will continue to fuel the loan-grant imbalance, and greater levels of borrowing will continue unchecked by federal attention or policy.

Federal Pell Grant (PELL)

The Federal Pell Grants unlike loans does not have to be repaid. For many students, Pell Grants provide a foundation of financial aid to which other aid may be added.

Federal Pell Grant (PELL) can be used to pay student's tuition, or if the tuition is covered by other means, then it helps student to buy books and supplies, or pay for transportation costs. Pell Grant is available only to students who have not earned a first bachelor's degree or professional certificate[3]. To be eligible for Federal Pell Grant and most other types of Federal financial aid, a student must:

- Have a financial need.
- Have a high school diploma, a GED, or have the ability to benefit from the program or training offered.

- Be enrolled to obtain a degree.
- Be a U.S citizen, permanent resident or other eligible classification of non-citizen.
- Have a valid Social Security number.
- Make satisfactory academic progress for Federal Financial Aid.
- Sign a statement of educational purpose/certification statement on refunds and default.
- Register with Selective Service, if required.

Pell amounts vary from year to year according to the total amount of money budgeted by Congress to the program. During the 1999-2000 year, the maximum Pell paid to a full-time student with a zero expected Family Contribution (EFC) is $3125 per year. To determine if a student is eligible for financial aid, the U.S Department of Education uses a standard formula, established by Congress to determine financial need. The formula takes into account a family's income, some assets, and certain expenses that are required (taxes), necessary basic living expenses. The formula result is the Expected Family Contribution (EFC), which indicates how much money student and student's family are expected to contribute toward their education for the school year. If the EFC is below a certain amount, students will be eligible for a Federal Pell Grant, assuming they meet all other eligibility requirements. The amount of Pell Grant depends on student' EFC, student's costs of attendance (which the financial aid administrators at the school will come up with) and enrollment status (full-time, three quarter-time, half time, or less than half time). For other aid programs, the school's financial aid administrator takes the

student's Cost of Attendance and then subtracts the student's EFC, and other aid [4]. The result is student's remaining financial need as shown in this formula:

Cost of Attendance
-EFC
-Federal Pell Grant Eligibility
<u>-Aid From Other Sources</u>
=Financial Need

The Cost of Attendance is the sum of:

- Student's actual tuition and fees or the school's average tuition fees.
- The cost of room and board (or living expenses for students who do not contract with the school for room and board).
- The cost of books and supplies.
- An allowance for transportation.
- An allowance for miscellaneous expenses.

Costs unrelated to completion of a student's course of study are excluded in calculating a student's cost of attendance.

Financial aid administrators also have the authority to adjust student' cost of attendance or some of the information that is used to calculate student's EFC. This kind of change can be made if there are unusual circumstances that affect the family's ability to contribute money to the cost of student's education.

A School can either credit the Pell Grant funds to the student's school account, pay directly (usually by check), or combine these methods. The school must inform students in writing about how and when they will be paid and how much. Students who

are enrolled for less then half time (less than six credits) are also eligible for Pell Grant. They will not receive as much as a full-time student, but the school disburse Pell Grant funds in accordance with the student enrollment status and cannot refuse an award simply because student is enrolled in less then half-time.

CAMPUS-BASED AID PROGRAMS

The Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), and Federal Perkins Loan programs are called campus-based programs because they are administered directly by the financial aid office at each participating school. Not all schools participate in all three programs.

How much aid students receive from each of these programs depends on the student's financial need, the amount of other aid received, and on the school's availability of funds. Unlike the Federal Pell Grant Program, who provides funds to every eligible student, the campus-based programs provide a certain amount of funds for each participating school to administer each year. When the money for a program is gone, no more awards can be made from that program for that year.

FEDERAL SUPPLEMENTAL EDUCATION OPPORTUNUITY GRANT (FSEOG)

FSEOGs are gift-aid for the undergraduates with exceptional financial need. Pell Grant recipients with the lowest Expected Family Contributions (EFCs) will be the first students to get FSEOGs, which don't have to be paid back. Student can get between $100 and $4,000 a year, depending on when the student applies, their financial need, and the

funding level at the school. FSEOGs are awarded only to undergraduate students who have not earned bachelors or professional degrees.

FEDERAL WORK-STUDY (FWS)

The FWS Program provides part-time jobs for undergraduate and graduate students with financial need, allowing them to earn money to help pay for their education expenses. This program encourages community service work and work related to the recipient's course of study. FWS can help student get their foot in the door by allowing them to gain valuable experience in their chosen field before they leave school. Wages of the FWS Program must equal at least the current federal minimum wage but may be higher, depending on the type of work they do and the skills required. Student's total FWS award depends on when they apply, their financial need, and the funding level at the school. The amount student can earn cannot exceed the student's total FWS award. When assigning work hours, student employers or financial aid administrators will consider each student award amount, class schedule, and academic progress.

FEDERAL PERKINS LOAN

A Federal Perkins Loan is a low-interest (5%) loan for both undergraduate and graduate students with exceptional financial need. Federal Perkins Loans are made through a school's financial aid office. The school is the lender but the loan is made with government funds. Student must repay the loan. The amount that student can borrow is based on when the student applies, their financial need, and the funding level at the school. Student can borrow up to $3,000 for each year of undergraduate study. The total amount an undergraduate student can borrow is $15,000.

Students have nine months after they graduat, leave school, or drop below half-time status before they must begin repayment. This 9-month period is called the grace period. At the end of the grace period, student must begin repaying the loan. Student may be allowed up to 10 years to repay the loan in full. Periods of deferments and forbearance do not count as part of this 10-year period. Monthly payment amount will depend on the size of student's debt and the length of their repayment period.

Under certain circumstances, students can receive a deferment or forbearance on the loan. During a deferment, no payments are required, and interest does not accrue. During forbearance, the payments are postponed or reduced. Interest continues to accrue, and the student is responsible for paying it.

If a student dies, or become totally and permanently disabled, the loan can be cancelled.

FEDERAL DIRECT STAFFORD LOANS

Stafford Loans are the Department's major type of loan. An increasing number of schools are participating in the Direct Loan Program including University of Nevada, Las Vegas. Under this program, the funds for the Stafford Loan come directly from the federal government. If a school does not participate in the Direct Loan, the funds for the Stafford Loan will come from a bank, credit union, or other lender that participate in the Federal Family Education Loan (FFEL) program. The terms and conditions of a Direct Stafford and those of a FFEL Stafford are the same. The major differences between the two are:

- The source of the loan funds.
- Some aspects of the application process.

- The administrative detail of the repayment process.

Students are eligible if they have remaining financial need remaining after their EFC, they can borrow a Stafford Loan to cover all or a portion of that remaining need. The government will pay the interest on their loan while they are in school, and when they qualify to have payments deferred. This type loan is a subsidize loan. If students don't have financial need remaining, they may borrow a Stafford Loan for the amount of their EFC or the annual Stafford Loan borrowing limit for their grade level, whichever is less. In an Unsubsidized Loan, the student is responsible for paying all of the interest on the loan. Because an unsubsidize loan is not awarded on the basis of need, their EFC isn't taken into account. If they don't receive enough need-based aid to meet their cost of attendance, students can pay for some of their remaining costs with an unsubsidize loan. Student will be charged interest from the time the loan is disbursed until it is paid in full. They can choose to pay the interest or allow it to accumulate and be capitalized. Students can receive a subsidize Stafford Loan and an unsubsidize Stafford Loan for the same enrollment period.

For both the Direct Loan and FFEL programs, students will be paid through their school in at least two installments. No installment may exceed one half of their loan amount. The loan money must first be applied to pay for tuition and fees, room and board, and then other school charges. If loan money remains, they will receive the funds by check or in cash, unless they give the school written authorization to hold the funds, the school may pay them the remaining funds as often as weekly or monthly.

HOW MUCH STUDENTS CAN BORROW

Student can borrow up to following amount:

- $2,625 if they are a first-year student enrolled in a program of study that is at least a full academic year;
- $3,500 if they have completed their first year of study and the remainder for their program is at least a full academic year;
- $5,500 a year if they have completed two years of study and the remainder of their program is at least a full academic year.

An independent undergraduate student or a dependent student whose parents are unable to get a PLUS loan (a parent loan), can borrow up to

- $6,625 if they are first-year students enrolled in a program of study that is at least a full academic year. (At least $4,000 of this amount must be in unsubsidize loans.)
- $7,500 if they have completed their first year of study and the remainder of their program is at least a full academic year (At least $4,000 of this amount must be in unsubsidize loans.)
- 10,500 a year of they have completed two years of study and the remainder of their program is at least a full academic year. (At least $5,000 of this amount must be in unsubsidize loans.)

The amounts given here are the maximum yearly amounts a student can borrow in both subsidized and unsubsidized Stafford loans. A student cannot borrow more than their

cost of attendance minus any other aid resources. The interest rates are variable (adjusted annually) but will never exceed 8.25%.

PARENT LOAN (PLUS)

PLUS Loans are available through both the FFEL and Direct Loan programs. Parents with good credit history, can borrow a PLUS Loan to pay the educational expenses of a dependent enrolled at least half-time in at least 6 credits hours at any eligible school.

A parent cannot be turned down for having no credit history—only for having an adverse one. Parents who do not pass the credit check, might still be able to receive a loan if someone, such as a relative or friend, is able to pass the credit check, and agrees to endorse the loan. An endorser promises to repay the loan if the parents fail to do so. The yearly limit on a PLUS Loan is equal to the cost of attendance minus any other financial aid received by the student. If their cost of attendance is $6,000 and student receive $4,000 in other financial aid, the parents can borrow up to $2,000.

The school receives the money in at least two installments. The school applies the loan to student's tuition and fees, room and board, and other school charges. If any loan money remains, the parents will receive the amount in a check, unless they authorize that it be released to the student. The interest rate is variable, but it will never exceed 9%. Parents will be notified of interest rate changes throughout the life of their loan. Interest is charged on the loan from the date of the first disbursement until the loan is paid in full.

REPAYMENT

The first payment is due within 60 days after the final loan disbursement for the year. There is no grace period for these loans. Interest begins to accumulate at the time the first disbursement is made, and the parents will begin repaying both principal and interest while their child is in school.

PROBLEM

Student Loans: Overburdening a Generation?

As federal and state governments have decreased their support of grants and scholarship aid, and demographics have affected levels of parental assistance. An increased responsibility has been placed on young people to finance a larger percentage of their higher education.

In the past decade, the Student Loan has become one of the most persistent concerns [5]. Students are becoming too heavily mortgaged by the debt they incur to finance their postsecondary education. Tremendous and largely unplanned growth in the student loan programs has fueled fears among students. As mentioned, annual Stafford Loan volume increased from a modest $2.9 billion in 1978-79 to $ 13.5 billion in 1990-91.

A study conducted by J.S. Hansen in 1987 indicated that, "data and studies on the impact of student borrowing are few, fragmentary, and frequently out-of-data and/or contradictory". After surveying the existing information, the study concluded that the

evidence did not support most frequently heard concerns. High debt levels were relatively rare and did not appear to be causing serious problems for many students; nor were educational, career, or personal decision apparently affected by indebtedness. Defaults, although a growing problem, were not typically found among students with high debt levels. Instead, defaulters tended to be students who had borrowed only once or twice, who had relatively low levels of debt, who stayed in school for short time, and who failed to obtain a degree or certificate. Such students were to be found disproportionately in proprietary schools; consequently, the default rate among proprietary institutions far exceeded that in other sectors of postsecondary education. The study also concluded that, though the incidence of borrowing had clearly increased, fewer than half of all students appeared to borrow at some time while they were enrolled. There were significant differences among borrowers of various types (graduate students versus undergraduates, full-timers versus part-timers, private, nonprofit school students versus those enrolled in public or proprietary institutions). Borrowers came from a wide range of economic circumstances. Once regarded as primarily for the middle class, the student loans has become an important financing vehicle for students from lower-income families.

Data from the first National Postsecondary Student Aid Study (NPSAS) subsequently confirmed these impressions about student borrowing. According to of NPSAS data, 50% of all U.S. (e.g., Merisotis 1991) students attending higher education institutions borrow during their undergraduate and/or graduate years to pay for college. The proportion of undergraduates assuming debt varied enormously among sectors, from 70 percent in proprietary schools to 8 percent in two-year public colleges. At four-year

public institutions 30% of undergraduate borrowed; the figure was 40 percent at private colleges and universities.

Cumulative debt levels naturally rose the longer students stayed in school. Among seniors, those enrolled in four-year doctoral institutions had cumulative debts averaging $15,000, whereas those at other four-year public schools had debt averaging $10,000. Borrowing student loans are more likely to be found among financially independent students, especially those with dependents of their own. As many of these students have relatively low incomes (in part because they are students and not full-time workers), their growing representation among student borrowers maybe contributing to the emerging perception borrowing is increasing among low-income students.

Rising student loan debt levels over the last decade are primarily the result of three synchronous occurrences:

1. Sharp increases in college costs;
2. The declining value of the Pell Grant in covering a percentage of tuition costs,
3. The expanded use of education loans by more economically and ethnically diverse population of students than has been seen in the past.

College costs increased 150% to 200% at public and private institutions nationally between 1981 and 1994, outpacing inflation by more than 250%. During the same period, grant and scholarship aid decreased, and a larger pool of needy applicants began to vie for a shrinking pool of "gift aid".

SHARP INCREASE IN COLLEGE COST

In the 1980s a major shift in the composition and distribution of aid took place. College costs and federal financial aid broke from the parallel track they had been on and began moving in opposite directions. Between 1981 and 1994, costs increased 153% at public universities and over 200% at private universities (e.g., Miller 1997). During this same 13-year period, the annual Pell Grant maximum rose only 31%, while median family income increased by 75%. So, while college costs increased, the amount of funds available for Pell Grant remained stable. To make up the difference, loans became a larger percentage of financial aid packages.

A recessionary period in the early 1980s, and then again in the early 1990s, led to severe cutbacks in state financial aid, particularly grant and scholarship programs. Families and students continue to bear the brunt of these decreases, absorbed through greater levels of borrowing, as public higher education subsidies declined. The worse years by far for public college tuition increases were 1991-92 to 1993-94 when costs jumped between 10 to 13% each year. Private college increases had started much earlier than public institutions, with increases in the 8 to 9% range beginning in 1987-88 and tapering off to between 6 and 7% annually by 1993-94.

WHY SUCH DRAMATIC INCREASES IN COLLEGE COSTS

In surveying the available research, a number of factors have contributed to the large increases in college tuition since the beginning of the 1980s. Michael O'Keefe, president of the Consortium for the Advancement of Private Higher Education, reasoned

that colleges had to play catch up on salaries and capital improvements in the 1980s after several years of stagnation in the 1970s[6].

O'Keefe contended that families and students were more willing to pay high prices in the 1980s, a trend that some college administrations took advantage of to offset declines in enrollment. The unstable economy of the late 1970s had spurred a strong desire for "upward mobility" among college-age students. Young people saw a very competitive job market and faced the fact that they would be hard pressed to meet, let alone exceed, the standard of living that their parents have achieved. This resulted in a growing demand for a "brand-name" college degree that both student and parent consumers felt would open doors to high paying, highly visible careers.

O'Keefe argued that the greater availability of federal loans had also influenced colleges to raise costs, stating "The magic of 'buy now, pay later' has come to higher education, making it almost painless to raise costs".

AFFORDABILITY AND ENROLLMENT

Despite the trend, identified by O'Keefe, that families were willing to pay more for college in the 1980s, concern about the affordability of a higher education has grown steadily since that time. A survey completed in 1986 found that 75% of the respondents felt that the cost of college was moving beyond the reach of the average American family. Six years later in 1992, another survey found that 92% of Americans in the eastern part of the country felt that costs were rising so fast that most people wouldn't be able to afford college.

A number of studies have shown that increases in college costs have a negative impact on the enrollment of low-income students. Micheal Mcpherson and Owen Morton Schapiro said in their 1991 book, *Keeping College Affordable: Government and Educational Opportunity,* that the enrollment of students from middle income backgrounds, at both public and highly selective private institutions, was also affected by large increases in tuition. Average enrollment rate for African American students, across all types of institutions (community college, 4-year college, etc.), fell dramatically from a high of 35% in the period 1975-79, to 25% in the 1981-85 period. Comparatively, average enrollment rates for white students moved from 33% in the 1975-79 period to 29% in the 1981-85 period. Although these rates also declined, they were not nearly as drastic as the rates for African-American students.

DECLINE IN PELL GRANT VALUE SPURS GREATER BORROWING AND DECREASES ACCESS

Over the last fifteen years, a number of studies have cited the importance of the Pell Grant program in addressing two key issues:

1. Expanding higher education access for low-income and minority students; and
2. Improving "persistence" rates by decreasing the numbers of financially at-risk students who drop out.

A 1991 Government Accounting Office (GAO) study noted, that due to the Pell Grant Program, lower income students enrollments were 21% higher than they would be without the availability of this type of aid. Once students are at college, Pell Grants positively affect their persistence. The (GAO) study concluded that providing an

additional $1,000 in grant aid to African American and Hispanic students reduced the likelihood of their dropping out by 7 and 8% respectively. Loans have a neutral to negative affect on whether a students stays in school; however GAO study found that the persistence rate of white students was positively affected by loans. For all its ability to increase low-income and disadvantaged student participation in college, the Pell Grant Program has not been able to survive as the primary financial aid vehicle for these groups. Since the late 1970s, the proportion of financial aid provided through the Pell Grant Program has steadily declined. In 1975-76 grants and other gift aid still made up 76% of a financial aid package, with loans making up 21%. In a period of only 12 years, this proportion was virtually reversed: in 1987-88 grants and gift aid had declined to 29% of the student aid award, with loans making up 67%. Unfortunately, debt levels have risen dramatically since 1992, when changes in eligibility and loan limits prompted greater levels of borrowing.

Nationally, the median debt level for college graduates in 1990 was $ 7,000 (half of the borrowers have debt below this mark and half have debt above this mark), up from $2,000 in 1977, an increase of almost 70%. The most recent date from the College Scholarship Services show that the average 4-year college student in 1993 graduated with $10,000 of education loan debt, while graduate students accrued an average of $35,000.

HIGHER DEBT LEVELS

Unfortunately, some analysts believe that the worse is yet to come given the large increases in borrowing in the last few years. Between 1992-93 and 1993-94, Stafford

Loan volume ballooned, primarily as a result of the eligibility and loan limit changes implemented after the Reauthorization of the Higher Education Act in 1992. At public 4-year colleges, overall Stafford loan volume swelled 53%, with the average loan size increasing by 23%-all in a single year (e.g., Miller 1991). For graduate and professional students, the average loan size increased by 31%. Unless starting salaries match such an increase, it is reasonable to assume that average student indebtedness for this cohort of borrowers will increase. Between 1987 and 1991 the real earnings of college graduates actually decreased 2.6%. A 1995 study, *College Debt and the American Family,* reports that over two-thirds of student loan borrowers surveyed said that they are at or close to their financial limit, and worried about how they are going to pay back their education debt. While borrowing increased 22% between 1990 and 1994, disposable personal income only rose 4.7% according to the study.

For young people just starting out in the "real world" after graduation, high debt levels may now be common place, but that does not make them any easier to manage for the average young consumer. Although most students fulfill their "entrance counseling" requirement before they sign a loan promissory note, and attend "exit counseling" sessions or receive debt management information before they graduate, the reality of repayment often does not hit home until the borrower has to make that first loan payment.

EVALUATING POTENTIANL SOLUTIONS

The availability of student loans have positive and negative affects on access of higher education and the quality of life for borrowers after leaving school. Number of potential "solutions" for keeping education loan debts at a reasonable level are:

1. Increase the level of federal and state grant assistance so that loans do not compose such a high percentage of a financial aid package;
2. Adjust the rate of college cost increases such as the rate of inflation or average increase in earnings;
3. Expand and improve student debt counseling before, during, and after college so that students better understand that debt levels should be pegged to expected salaries after graduation as a way to keep debt-to-income ratios from becoming burdensome;
4. Encourage families to save for college so as to lessen the amount of loans needed to cover higher education costs;
5. Expand loan "forgiveness" programs that give student loan borrowers options for retiring their debt while working to solve social or community issues; and
6. Identify the direct and indirect parties who benefit from having a higher number of educated citizens, i.e., the federal government and business, and educate these groups about the importance of sharing the responsibility of developing an educated work force.

The implementation to the above solution can be hard to achieve. However, with the introducing of prepaid tuition programs families can engage in a timely financial planning. The program increased the saving rate (e.g., Miller 1991).

STATE PREPAID TUITION PLANS AND EDUCATION SAVINGS PLANS

In contrast to the longstanding traditions of loans, grants, and scholarships, state financing of higher education by prepaid tuition plans is more recent. The programs are designed to empower the middle class by providing economic access to higher education. For most middle income families, current income and ordinary savings are no longer adequate to pay for a college education[7]. The middle class of America has seen itself squeezed out of numerous aid programs during the 1980s, and taxpayers are faced with a $3 billion bill each year due to rising defaults on student loans[8]. Universities find themselves in a period of crisis, facing huge budget cuts that require administrators to do "more with less" if they are to survive[9].

One answer to these problems, thus ensuring future enrollments and funding streams for state colleges and universities is the prepaid tuition plans and education savings plans. National patterns in college saving clearly indicate that there is a need for government to provide an incentive to save[10]. Prepaid tuition programs increase the savings rate and help families engage in timely financial planning.

The prepaid tuition plans are now available in more than a dozen states. Nearly two dozen others have legislation pending. Several private schools also are considering the prepaid tuition programs.

Much of the heightened interest has occurred since last summer, when Congress granted the plans favorable tax status after years of confusion. It allowed the investment

earnings to be tax-deferred federally until a student reaches college age, after which the withdrawn fund would be taxed at the student's rate.

Some states had essentially put their tuition plans on hold until the tax question was settled, and one of them Wyoming, even suspended its plan, although it's honoring prior contracts. Michigan was the first state to authorize a program in 1986, and to bring the issue of taxes to light. The Internal Revenue Service had wanted to tax the investment income the state earned on the prepayments, but lost in court.

Prepaid tuition plans allow parents, and in some cases grandparents, to set aside money, either in a lump sum or monthly installments, based on child's age. States invest the pooled money, often in bonds. This allows them to guarantee tuition costs regardless of how much tuition rises by the time the child enrolls.

Some programs require students to attend public colleges and universities within the state. In others, students can use the tuition money at any public or private school nationwide. Ohio even allows the plan to be transferred to another family member should the child for whom it was intended decide not to go the college.

The State of Florida started the prepaid tuition plan nine years ago. Since that time it has become one of the nation's largest programs with 337,378 participants and $1.6 billion in assets. The parents of a newborn projected to enroll in college in 2014 will pay either a onetime fee of $ 5,800, $125 a month for five years, or $50 a month until the child graduates. Nearly two-thirds of the participants in the Florida Prepaid College Program contract, revealed that prior to purchasing the plan they had no specific savings for college[11]. However, after buying a Florida Prepaid College Program contract, over 43

percent indicated that they had additional savings plans for other college expenses-an indication that prepaid college tuition plans have a multiplier effect that will increase the overall savings rate.

A state prepaid tuition program provides no new taxes for the government and no operational cost to the state. It can be administered on the basis of a public/private partnership, creating many jobs in the private economy. Tax solutions represent "business as usual," and are too complicated for the average purchaser. Governmental program should address the public's needs and wants without an additional tax burden.

For families interested in helping their children attend college, a prepaid tuition program provides an affordable means of paying tuition over an extended period of time, with fixed monthly payments. States can encourage employer/employee contribution plans and payroll deduction plans to make the financing of prepaid tuition contract even easier.

SECRET OF SUCCESS

One of the primary elements of success in providing a plan that the public can easily understand and use; hence by facilitating application process it can increase the volume of participants. Surveys have shown that the primary motivation for the purchase of prepaid tuition contract is the guarantee that the tuition will be paid, no matter what the cost at the time of college enrollment (e.g., Miller 1991). In marketing a prepaid program, every effort should be made to keep it simple.

Another aspect of a successful prepaid tuition plan is the opportunity for voluntary termination. The contract is revocable at will by purchaser, with refunds of at

least the principal payments. Prepaid tuition plans should not discourage participation by requiring long-term investments without any possibility of early withdrawal. A prepaid tuition contract is intended to provide peace of mind, which should not be endangered by the imposition of rigid requirements.

BENENFITS OF PREPAID TUITION PROGRAMS

Prepaid tuition programs provide governmental approaches to the societal problem of increasing economic access to higher education. If families have inadequate savings to finance college, and the debt they would thus incur is prohibitive, our nation could if a future "cold war," were to occur. Such a war would revolve around technology; hence increasing the value of education.

College administrator perceives prepaid programs as a threat to the academic community because these programs are not controlled by the education institutions (e.g., Olivas 1993). However, administrators should view prepaid tuition participants as a built-in constituency, ready to lobby the political leadership on behalf of higher education. Public institutions have a mission to educate the states' citizens through an open-access policy to higher education; institutional opposition to prepaid programs represents a lack of commitment to that mission. With proper safeguard, a taxpayer bailout or subsidy for prepaid tuition plans is not likely to be needed; the risk is minimal, and the payback is great.

NEVADA PREPAID TUITION

In order to help parents pay for the increasing costs of a college degree Nevada State Legislature established the Nevada Prepaid Tuition Program in July 1997. The plan attracted hundreds of parents, grandparents, aunts and friends who pooled their money together in conservative, low-maintenance investment plan. As of February 1999, there are 2788 children are enrolled in the program with a $706,253 deposited in the program[12].

The program is flexible and economical; it allows parents to start on financing college tuition by beginning to save now so that their children can go to college without the cost becoming an undue financial burden. The program allows parents to begin paying for the cost of college tuition at a rate fixed. Convenient monthly installments. The sooner parents start in the program. Smaller monthly payments can be established by early enrollment . The program offers three different contract plans:

1. Four-year University Plan.
2. Two-year Community College Plan.
3. Hybrid plan providing tuition prepayment for two years of community college and two-year of university.

The price today for the plan parents select is based on the age of the child or the grade in which the child is enrolled and the type of plan parents select. Payments may be made using a monthly coupon, by direct deduction from a bank account, or by payroll deduction.

THE PURCHASER AND THE BENEFICIARIES

The program is organized for parents and beneficiaries to be qualified for tax benefits under Section 529 of the Internal Revenue Code. The contract offers the opportunity for tax deferred growth and payment of tuition charges imposed by Nevada State Universities or Nevada State Community Colleges for enrollment of a qualified beneficiary determined by the university or college to be a Nevada resident. The program also may be used by qualified beneficiaries to enroll in private colleges in Nevada or in colleges out side of Nevada where it will pay a portion of the student's tuition costs. All Nevada residents and their children not over 18 years of age, have not completed 9th grades, are eligible to participate in the program. Contract benefits may be transferred to another family member or refunds may be obtained under certain circumstances, and with the possible imposition of fees and or penalties.

The most important goal of the program is to encourage parents to start saving now for the cost of their child's college tuition while time is still on their side. The Contract in the program will provide payment of undergraduate tuition charges imposed by any state colleges or university in Nevada for enrollment of a student determined by the college or university to be a Nevada resident. The contract does not provide for payment of out-of-state tuition, parking fees, fines athletic fees, or course specific fees such as laboratory fees and studio fees, charges of books, supplies, room, or board, even if the state community college, state university, or other eligible institution requires all students to pay such charges. The contract also does not pay for any

application or entrance fees. The Program funds can be used at all accredited colleges, community college, and universities where the child meets the admission requirement. The contract between the purchaser and the Nevada Program consists of the Application submitted by the Purchaser, the Master Agreement, and the Payment and Participation Schedule. The provision of NRS 353B and the regulations of the Board, as amended from time to time, are incorporated into govern the interpretation and performance of the contract[14].

Participation in the program is voluntary, and the contract may be canceled at any time by requesting a refund in writing. The contract may also be canceled for non-payment of fees, or due to fraudulent information on the application. If parents decide to cancel the contract, then they are entitled to a refund of money paid into the trust fund plus interest, less administrative fees, which include contract maintenance and other contract related fees. The voluntary cancellation fee if 50% of total paid after subtracting administrative fees, up to % 150 maximum. The rate of interest will be set annually by the Board for all refunds to be paid during the year. By canceling the contract, parents may reenter the program at a future time by purchasing a new contract. It is likely that the costs will be higher at the time to reentry. For this reason, it is advantageous to remain in the program once contract is established.

The child decide not attend school then parents have three options:

1. Transfer the contract to another Qualified Beneficiary, or

2. Keep the contract in effect. The child has ten years from the time they would have attended a college or university to use the benefit, or until they reach the age of 30 or
3. Cancel the contract and request the refund.

If the child receives scholarship then the contract may be canceled with no cancellation fee. The contract may be refunded or transferred to another Qualified Beneficiary at no additional fee.

If the child for whom the contract is intended dies or becomes disabled, then parents have two options:

1. Transfer the Contract to another Qualified Beneficiary, or
2. The Contract may be canceled and the parent may receive receive a refund no cancellation fee will be charged.

The contract cannot be transferred to another beneficiary once the child begins using benefits. Parents can request a refund based on the money paid into the trust fund. Administrative fees, a cancellation fee, and any money paid for tuition and fees will be deducted.

Any child who has not completed the ninth grade and is 18 years of age of less may be a Qualified Beneficiary. A substitute beneficiary must be a qualified member of the immediate family. This includes, but is not limited to, brothers, sisters, stepbrothers, stepsisters, half-brothers, or half-sisters of the original Qualified Beneficiary.

ELIGIBILITY AND FLEXIBILITY

All children who have not completed the ninth grade and are 18 years of age or less are eligible for the program. Either the purchaser or Qualified Beneficiary must be a resident of Nevada at the time of enrollment into the program. The child may be the minor child of a noncustodial parent who is a resident. For instance, if a child's parents are divorced and the child lives in another state, but has a parent who lives in Nevada, a Contract may be purchased for the that child. Also, children of military personnel whose "home of record" is in Nevada are eligible.

Ownership of the contract may be transferred by changing the purchaser. The initial Purchaser must submit a notarized request to the Program office. In the event of the death of initial Purchaser, the Purchaser's Appointee may request this change. After acceptance by the program office, a $20 Purchaser change fee will be assessed for each change per Contract.

The contract benefit can be used at any accredited college, community college or university. However, the program will pay to any private college or university in Nevada or to any out of state college or university on a semester basis, no more than the tuition the Program would have paid had the student enrolled in Nevada state university or community college. The tuition paid may be less than the actual tuition cost at such college or university. The Purchaser or beneficiary will be responsible for payment of any difference in the actual tuition cost and the tuition benefit paid under the contract.

The Qualified beneficiary must meet the Nevada College residency requirements to qualify for in-state tuition rates. The Qualified beneficiary has 10 years after the

projected college entrance date to use the benefits of the Contract, or until the reach the age of 30. Each contract is limited to one purchaser and one Qualified Beneficiary. However, any number of persons can make payments or contribution to the payment of a contract. A separate application and $60 application fee are required for each child

PAYMENT OPTIONS

There are three options:

1. One lump-sum payments
2. Equal monthly payments until the child reaches college age.
3. A five-year-option of 60 equal payments.

The amounts vary depending upon the age of the child.

Monthly payments contain an interest component to take into account the fact that the full purchase price is not available for immediate investment on parent's behalf. The interest rate component is part of the monthly payment of the Contract and included in all refund amounts.

Only the Purchaser of the contract may request a refund of amounts credited to the contract. Refund requests must be in writing and must include the information and documentation required by the Program. Refunds due to the death of the Qualified Beneficiary, a permanent disability that prevents attendance at any institute, or as a result of a scholarship are processed without penalty. All other refunds are submitted to penalty. Refunds will consist of the total paid into the contract less contract maintenance fees and applicable penalties. Interest on the refund will be calculated based on the annual rate

approved by the Board. The interest portion of the refund will be taxable in the year received.

ELIGIBILITY

All children who have not completed the ninth grade and are 18 years of age or less are eligible for the Program. Either the Purchaser or Qualified Beneficiary must be a resident of Nevada at the time of enrollment into the program. Noncustodial parents and military personnel residing in Nevada are eligible.

TAX ISSUES

Under current federal tax law, the increase in the value of a Nevada Prepaid Contract will not be taxed to the beneficiary until the Program begins making payments for college tuition. At that time the Qualified Beneficiary will receive an annual statement detailing the benefits used in each year. If a refund is requested, the purchaser will owe federal tax on the interest received in the year the refund is processed. Program participants are encouraged to seek advice from qualified tax advisor.

MATRICULATION

Once the beneficiary reaches college age, has been accepted and properly identified as a participant in the Program, the college or university will bill the Program directly for the payment of tuition. Payment is then made directly to the college or university. The price for each contract as set forth on the Payment and Participant Schedule is based on the date of anticipated matriculation of the Qualified Beneficiary. The Qualified Beneficiary has 10 years from this date to use the benefits of the contract, or until they reach the age of 30.

MILLENNIUM SCHOLARSHIPS

Most recently, Nevada Governor Kenny Guinn initiated and successfully guided the Millennium Scholarship Program through the 1999 Nevada Legislature[13]. The Millennium Scholarship initiative was enacted into law by the Nevada Legislature; the legislation created the Millennium Scholarship trust fund to be administered by the State Treasurer's Office. In October of 1999, the Board of Regents adopted a policy guideline for the administration of the scholarship. Under the support and administration of the State of Nevada Treasurer's office, the Nevada Prepaid Tuition and Millennium Scholarship programs will work to build a better, stronger Nevada.

The arrival of the Millennium Scholarship in fall 2000 will give young Nevadans the opportunity to attend higher education with their basic costs covered. A Millennium scholarship will provide up to $10,000 to eligible students pursuing certificates, associate's degrees or bachelor's degrees at public community colleges and universities in Nevada.

The Millennium Scholarship will pay for expenses such as tuition fees, A Nevada high school student can become eligible for the Millennium Scholarship when all the following conditions are met:

1. He/she must graduate with a diploma from a Nevada public or private high school, graduating in the class of the year 2000 or later.
2. He/she must complete high school with at least a 3.0 grade point average calculated using all high school courses. The grade point average may be

weighted or unweighted. (Beginning with the graduating class of 2004, the courses used in calculating a grade point average will change.)

3. Must pass all area of the Nevada High School Proficiency Examination.
4. Must be a resident of Nevada, as defined by Board of Regents' policy, for at least two high school years.

To receive the Millennium Scholarship does not guarantee admission to the universities, nor does it guarantee admission to all programs at the universities or at the community colleges. The admission requirements of the universities are different from the requirements for the Millennium Scholarship. Upon admission to a University Community College of Southern Nevada (UCCSN) institution, the following conditions must be met in order to receive the benefits of the scholarships:

1. Enrollment in at least 12 semester credit hours at a university or 6 semester credit hours at a community college each semester.
2. Enrollment in a program of study leading to a recognized associate degree, baccalaureate degree, or pre-baccalaureate certificate.
3. Satisfactory academic progress, as defined by the institution, toward a recognized associate degree, baccalaureate degree, or pre-baccalaureate certificate.
4. Student must maintain at least a 2.00 cumulative grade point average.
5. Student must satisfactorily complete at least 12 credit hours at a university.

The dollar value of the Millennium Scholarship is determined on by the number of credits student is enrolled for. For 2000-2001, Millennium Scholars at a community college will receive $40 and $80 per credit hours at a university.

Unlike many forms of financial aid, the Millennium Scholarship can be used for any costs related to attending UCCSN institutions. For example, it may be used for course registration fees, special class fees, laboratory fees and expenses, required textbooks and course materials, transportation, childcare, and any other costs related to student's attendance. The cost of attendance will vary depending on ones personal circumstances at the UCCSN institution.

The following data represents estimated higher education costs per semester is representation of the cost of higher education for fall 1999:

	Universities On Campus	**Universities Off-Campus**	**Community Off-Campus**
Tuition and Fees	$860	$680	$500
Books and Supplies	$375	$375	$360
Room, Board	$4125	$5400	$4100
Total	$5360	$6635	$4960

The above figures represent the average cost for an undergraduate student who is taking 17 credits. Nevada community colleges do not have dormitory facilities; all are off-campus housing.

CONCLUSION

College attendance is simply not as affordable as in years past, both in terms of tuition cost and in the more expensive and risky method of borrowing to pay for it. Young people do not feel safe borrowing the equivalent of a home mortgage to go to college. These students have neither the family experience that ensures them of the ability to repay the loans, nor the empirical knowledge of what college degree can garner in terms of consistent future employment.

In order to keep college affordable and decrease student loan indebtedness, parents and students can take advantage of pre-paid tuition program within their States. Prepaid tuition programs are aimed at the financial problem, which incorporates risk consideration. College costs are high relative to average current income, and the cost will be higher, in nominal dollars, in the future. No matter what the income distribution, payment method, or tax consequences prepaid tuition programs represent good governmental policy.

IDEAS FOR FURTHER RESEARCH

The are many possible ideas for further research. The issues are as such:

- Can we afford not to help students save for college?
- Can we afford not to reduce burdensome debt and high default rates for student loans?
- Are we going to continue to accept increasing need for financial aid and less economic access to higher education?

Notes:

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[1] For an extended review, see Jamie P. Merisotis, 1991. A Brief History of Federal Student Aid. The changing Dimensions of Student Aid. 74. 4-10.

[2] For more information about Congressional Methodology see, Axt. R.G. 1952. The Federal Government and Financing Higher Education. New York. Columbia University Press for the Commission on Financing Higher Education.

[3] See Douglas Windham, 1984. Federal Financial Aid Policy: The Case of the Pell Grant Quality Control Study. Review of Higher Education. 4: 397-410. Windham has carefully investigated the evidence of widespread fraud and found most of "abuse" to be non existent or minor.

[4] See Micheal A. Olivs. 1985. Financial Aid Packaging Policies: Access and Idealogy. Journal of Higher Education. 56: 462-475.

[5] Janet S. Hansen, ed. 1991. The Shifting Roles of Parents and Students. New Direction for Higher Education: 21-31. Hansen saw a renewed emphasis on personal and student responsibility for financing higher education, as federal aid programs and family incomes legged behind college costs.

[6] Diane L. Saunders. 1996. Broken Partnership: The Impact of Increased Education Debt. Journal of Studenbt Fiancial Aid. 26: 19-49.

[7] Sandy Baun. 1990. The Need for College Savings. College Savings Plans: Public Policy Choices: New York. 16.

[8] Kerry Hannon. 1992. How Your're Getting Stiffed By the Student Loan Mess. Money . 164.

[9] John Elson. 1992. Campus of the future. Time: 54.

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[10] A Charlene Sullivan. Saving for College: The Investment Challenge. College Saving Plans. 21.

[11] Florida Prepaid College Program. 1991. (Brochure)

12 Promise Kept. Nevada Prepaid Tuition Brochure. 1999.
13 The Millennium Scholarship And Nevada High School Graduates. October 1999.

14 "Invitational Conference on College Prepayment and Savings Plans," sponsored by the American Council on Education, the College Board, the Education Commission of the State, and the National Center for Postsecondar Governance and Finance, 1987.

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