Statement before the US House Committee on Education and the Workforce
On The State of American Education

High Costs, Uneven Value

Repairing The Federal Role in Postsecondary Education

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February 5, 2025

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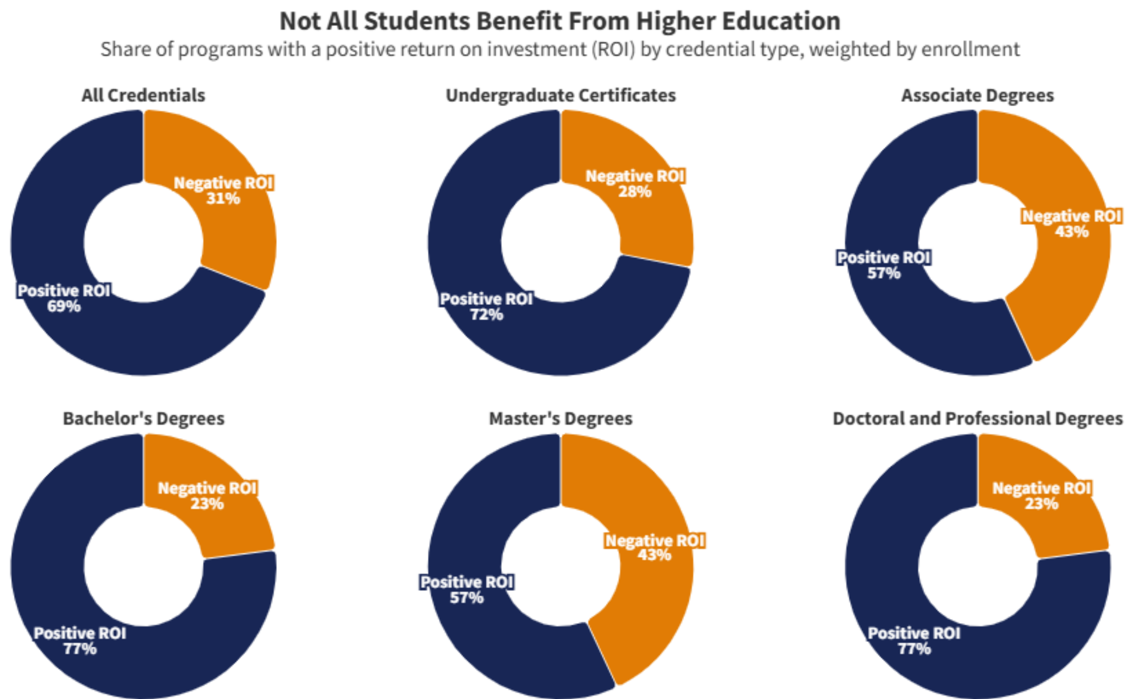
Good morning, Chairman Walberg, Ranking Member Scott, and distinguished members of the Committee. Thank you for the opportunity to testify today on the state of postsecondary education and the federal government's role in shaping it. My name is Preston Cooper, and I am a senior fellow focusing on the economics of higher education at the American Enterprise Institute (AEI), a nonprofit, nonpartisan public policy research organization based here in Washington, DC. My comments today are my own and do not reflect the views of AEI, which does not take institutional positions.

The higher education system suffers from many problems, including excessive costs, low completion rates, uneven financial value for students, and high rates of student loan nonpayment. Federal government policies unintentionally exacerbate many of these issues, as taxpayers' considerable investment in higher education comes with few quality controls or accountability to ensure that colleges and universities are delivering on their promises to students. Fortunately, this year's budget reconciliation process presents a unique opportunity to remedy many of the policy problems that have led the higher education system astray.

The Problems Facing Higher Education

Americans are losing confidence in the higher education system. According to *The Wall Street Journal*'s polling, 56 percent of Americans believe that a four-year college education is no longer worth the cost.[1] People are less likely to say that colleges and universities have a positive impact on the direction of the country.[2] This changing sentiment has translated into falling enrollment: The number of students attending college has dropped 12 percent since its peak in 2010.[3]

Some of the public's lack of confidence is justified. Higher education can be financially beneficial for students—but there are major exceptions. A large proportion of students who pursue higher education end up no better financially than if they had not attended college at all. My analysis of the financial value of college for the Foundation for Research on Equal Opportunity finds that 31 percent of federally funded higher education programs leave the typical student worse off financially. For some credential types, including master's degrees, the share of nonperforming programs is closer to one-half.[4]



There are numerous reasons why some forms of higher education may not deliver a return on investment (ROI) for students. Students benefit from college when the financial returns (the expected increase in lifetime earnings from a college degree) justify the costs and risks (including tuition, fees, time spent out of the labor force, and the chance of noncompletion). But if earnings after enrollment are middling, costs are too high, or

completion rates are too low, the decision to pursue postsecondary education becomes less of an investment and more of a gamble.

Unfortunately, all three of these conditions are often present in federally funded higher education programs. Many fields of study at the postsecondary level do not typically lead to middle- or high-wage jobs, meaning students often do not earn back the costs of their education.[5] The cost of tuition has also risen over the last several decades; when college is more expensive, it's less likely that a particular degree will pay off, all else being equal.[6] In addition, most of the value of a college degree is contingent on actually finishing the degree. Nationwide, however, only 62 percent of college students finish their credentials within six years, and some colleges have completion rates below 10 percent.[7]

Yet the federal government continues to fund programs that typically do not pay off for students. Between 2018 and 2022, I estimate that at least $37 billion in Pell Grants and $86 billion in federal student loans flowed to higher education programs with a negative return on investment.[8] This lavish funding of low-ROI programs contributes to the student loan crisis: When students pay too much for college relative to what they earn after leaving school, it becomes harder to pay down loan balances. Before the March 2020 pause on student loan payments, 11 million borrowers were either in default or more than 30 days delinquent on their debts.[9] Millions more were taking advantage of income-driven repayment, loan forbearance, and other options to reduce or eliminate their monthly payments.[10] Because of these programs, the Congressional Budget Office expects that taxpayers will lose $223 billion on student loans originated between 2025 and 2034—to say nothing of expected losses on outstanding loans.[11]

Former President Joe Biden's largely unsuccessful efforts to forgive federal student loans en masse did little to help matters. But at the same time, the federal student loan program's problems predate the Biden administration. Setting the student loan program on a sustainable trajectory requires more than simply undoing the Biden administration's executive actions. To repair the damage to higher education, Congress could undertake a more comprehensive overhaul of the student loan system to rein in fiscal costs, impose sensible limits on borrowing, and hold colleges accountable for their economic outcomes.

Reforming Student Loan Repayment

The student loan repayment system has been broken for years now. Over 25 percent of student borrowers in some cohorts defaulted on their loans.[12] In response, the Obama administration greatly expanded income-driven repayment (IDR) plans, which allowed borrowers to reduce their monthly payments. These plans proved popular: By the beginning of 2020, over half of direct loan balances were being repaid on an IDR plan.[13] While IDR plans allowed some borrowers to avoid the worst consequences of student loan default, such as wage garnishment and negative credit reports,[14] they did not fix the fundamental problem: Too many students used federal loans for postsecondary education where cost exceeded value.

The Obama-era IDR plans allowed borrowers to slash their payments—sometimes to zero—and receive forgiveness of remaining balances after a set period of time (most commonly 20 years). In 2018, 36 percent of borrowers qualified for a $0 monthly payment.[15] Since interest continued to accrue, borrowers whose payments did not fully cover interest saw their balances rise; during the 2010s, more than 75 percent of IDR users

negatively amortized during their first six years on the repayment plan.[16] In 2020, the Congressional Budget Office projected that the federal government would forgive more than $200 billion over a decade on loans being repaid through IDR plans[17]—an estimate issued before the Biden administration announced changes to IDR that made the program even more costly.

In 2023, President Biden's Education Department announced changes to IDR that would cut monthly payments even further and accelerate loan cancellation for some borrowers. The new version of IDR, known as the Saving on a Valuable Education (SAVE) plan, could cost as much as $475 billion, according to the Penn Wharton Budget Model.[18] (The SAVE plan is currently on hold pending the outcome of legal challenges.) As of February 2024, 57 percent of borrowers enrolled in the SAVE plan qualified for a $0 monthly payment.[19] The vast majority of SAVE users are not expected to fully repay what they borrowed. In the words of economist Adam Looney, the SAVE plan "turn[s] student loans into untargeted grants."[20] In addition to fiscal costs, this dynamic threatens to create a moral hazard: If students do not need to repay what they borrowed in full, it becomes easier for colleges to hike tuition and capture the additional loan dollars. While the SAVE plan exacerbated this problem, it was already present to some extent in the Obama-era IDR plans.

A responsible approach to student loan repayment would strike a balance between fiscal responsibility and preserving an appropriate safety net for lower-income borrowers. The College Cost Reduction Act (CCRA), introduced last year by Representative Virginia Foxx, offers one such approach.[21] CCRA would create an income-driven repayment plan that would reverse SAVE's ultralow payments and eliminate loan cancellation. In exchange, the

CCRA plan would cap total interest accrual and offer low-income borrowers assistance in making their loan payments—ensuring that on-time payments always pay down principal, rather than being consumed by accrued interest. This would prevent the ballooning loan balances that so many borrowers complain about. The changes to loan repayment under CCRA would save $127 billion over ten years.[22]

Loan Origination and Price Transparency

The burdens to students and costs to taxpayers of the loan program are not just a product of the repayment system, but of loan origination policies. While loans to undergraduate students are capped, federal lending to parents of undergraduates and graduate students is effectively unlimited. (These groups may borrow up to the cost of attendance, as defined by the institution.) This enables colleges to charge higher tuition than they otherwise might, since students and parents will always be able to borrow more from taxpayers to cover it.[23]

Federal loans to parents of undergraduates, known as Parent PLUS loans, are a particular burden on low-income families. Parent PLUS loans carry a 9.08 percent interest rate and a 4.228 percent origination fee, and they are largely ineligible for the most generous IDR plans.[24] A fifth of Parent PLUS borrowers have an expected family contribution of zero, meaning the government has determined the parents have too low an income to contribute anything toward their children's education.[25] Yet wealthy institutions such as Baylor University have relied extensively on Parent PLUS loans, often pushing tens of thousands of dollars' worth of the loans on lower-income parents who subsequently cannot pay down their balances.[26] A small group of universities benefit the most from

Parent PLUS loans: Just 10 percent of colleges took in more than 80 percent of Parent PLUS loan volume in the 2023–24 academic year.[27]

Loans to graduate students—which the Congressional Budget Office expects to make up around half of new student loans originated this fiscal year[28]—are also effectively unlimited. Not coincidentally, inflation-adjusted average debt for graduate students rose from $58,920 in 2000 to $90,060 in 2020.[29] Graduate loans are major source of the student loan program's fiscal costs; taxpayers will lose $102 billion on lending to graduate students over the coming decade.[30] Moreover, Grad PLUS funds in particular flow overwhelmingly to wealthy universities. The richest one-fifth of schools use more than two-thirds of Grad PLUS loan volume. New York University and the University of Southern California each take in more Grad PLUS dollars than every Historically Black College and University in the nation, combined.[31]

Adding complications to this is the fact that colleges are not always upfront with students regarding the net prices students are expected to pay, or the volume of loans in their financial aid packages. A Government Accountability Office (GAO) investigation found that 91 percent of colleges do not list an accurate net price on financial aid offer letters; many financial aid offers do not even clearly label loans as "loans." One offer letter GAO highlighted pushed nearly $25,000 in federal student loans on the recipient and his or her parents, despite never using the word "loan."[32] These opaque pricing practices often lead students to misunderstand how much debt they are taking on, and they make it more difficult for students to negotiate with institutions for a better deal.

Fixing these issues will require a two-pronged approach. First, commonsense caps on federal loans are in order. The College Cost Reduction Act includes aggregate caps of

$50,000 to undergraduate students, $100,000 to graduate students, and $150,000 to students in professional programs like medicine. The bill also includes program-specific annual loan limits based on the median cost of attendance for similar programs nationwide, which would constrain debt burdens for students in the most expensive programs.[33] The Congressional Budget Office expects these limits will save $19 billion over ten years.[34] Second, students need greater transparency around what they pay for college. CCRA requires institutions to use standardized financial aid award letters that clearly label loans as "loans," and to guarantee tuition prices for students for a set period of time. The bill also mandates the collection of more detailed data on net prices.[35]

Holding Colleges Accountable for Outcomes

Changes to student loan limits and loan repayment will improve the loan program. But the underlying problem is a lack of ROI for too many higher education programs. Fixing that problem will require changing the incentives facing colleges and universities, which means stronger accountability around student outcomes for institutions that participate in the student loan program. While there are some outcomes-based accountability policies in the loan program, such as the Cohort Default Rate, these have largely lost their utility as institutions have figured out how to manipulate the metrics involved.[36] A more comprehensive approach is needed, involving strong incentives for colleges.

Ideally, the federal government would insist on student loan "risk sharing"—that is, when students can't repay their loans in full, their institutions ought to bear some of the costs. This creates an incentive for institutions to ensure that student debt burdens do not become unmanageable, given students' expected earnings after leaving school. Institutions

can reduce their risk-sharing liabilities by limiting the amount of debt they foist on students, adopting policies to ensure more students graduate and realize the benefits of higher education, and overhauling their program offerings to enroll more students in programs with a higher financial value. The goal of risk sharing is not to punish colleges financially, but to provide encouragement for schools to make these needed changes.

Student loan risk sharing will save taxpayers money as the government collects risk-sharing penalties and originates fewer bad loans in the first place. These funds can then be deployed in other ways to sharpen the incentives for colleges to improve ROI. The College Cost Reduction Act adopts such a two-pronged approach: It includes a risk-sharing system and allocates a portion of the savings to a new direct aid program known as the PROMISE Grant. PROMISE Grants would be awarded directly to institutions; the amount is determined through a formula based on the number of low-income students the institution enrolls and how well it serves them. Institutions qualify for larger PROMISE Grants if they maintain high graduation rates, produce high earnings for former students, and keep prices to a reasonable level. The PROMISE Grant serves as both an incentive and a source of funding for institutions to invest in expanding high-quality programs.[37]

Institutions which reduce their reliance on student loans, enroll healthy numbers of low-income students, and maintain strong student outcomes are likely to come out ahead financially even in the presence of student loan risk sharing. My analysis of CCRA finds that more than 80 percent of community colleges would see a net increase in funding under the Act, and community colleges with a strong vocational focus would especially benefit.[38] This would not only reward these schools for their good outcomes but also encourage them to

invest in expanding the high-quality vocational programs that have seen considerable increases in student demand in the last few years.[39]

These reforms would deliver savings for taxpayers as well. The Congressional Budget Office estimates that CCRA's risk sharing and PROMISE Grant policies combined would save the federal government $18 billion over the coming decade.[40]

Conclusion

Postsecondary education in America suffers from high costs, uneven financial value, and a chaotic student loan system that exacerbates more problems than it solves. Fortunately, this year Congress has a unique opportunity to address many of postsecondary education's most pressing challenges by reforming student loan repayment, imposing commonsense limits on federal loans, and holding taxpayer-funded colleges accountable for their outcomes. These reforms would represent a strong first step toward restoring public confidence in American higher education.

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