Senate Republican Policy Committee
Hearing on Student Debt & Financial Literacy
Testimony of Mary Young
AICUP Vice President of Government Relations
October 17, 2016

Good morning, Mr. Chairman and Senators, my name is Mary Young and I am the AICUP Vice President of Government Relations. I am here today to testify on behalf of the Association of Independent Colleges and Universities of Pennsylvania (AICUP), a statewide association composed of ninety (90) private non-profit colleges and universities.

Pennsylvania is the second largest private college state in the nation. AICUP institutions enroll nearly 290,000 students or 42% of the students going to college in Pennsylvania, and they employ about 72,000 people. If you look at the back of the AICUP "Making the Case" or the "Economic Impact" documents I provided, you can see the list of our members. The independent colleges and universities are a vibrant part of the Commonwealth and students attending these institutions come from every county in Pennsylvania. Pennsylvania is blessed to be the home to a diverse and extensive network of both private and public universities and colleges.

Thank you for the opportunity to address this important topic of student debt and financial literacy.

<u>Student Debt</u>

Let me assure you that AICUP member presidents share your concern about student debt and like you struggle with their budgets and costs. Student debt is a serious problem for some students, but it has also been sensationalized by the media, which focuses on anecdotal stories of students borrowing $80,000, $90,000 or even a $100,000 for a degree and then not being able to earn a "decent" salary to pay of their loan.

Therefore, I want to quickly review a few facts about student debt. In **Chart 1**, we show the **<u>Average Amount Borrowed by Undergraduate College Students in Pennsylvania</u>**. Students who graduated from public 4 year colleges have an average debt of $33,547 while those who graduated from private 4 year nonprofit colleges and universities have an average debt level of $32,833. (Average debt load for private college students may be lower because a larger percentage of students finish in four years and receive significant amounts of institutional aid.) While these amounts are not inconsiderable, they are similar to loans people take out to buy a car, and newspapers are not full of stories claiming that cars are too expensive. At the bottom of this chart we show the loan default rate for students who graduated in 2013. This information was collected three years after graduation. Again you see that Pennsylvania private institutions do well in terms of a loan default rate at 4.8%.

Chart #2 shows <u>Borrowers by the Size of Outstanding Student Loans</u>. This chart reflects national data, not just Pennsylvania. As you see, most students borrow reasonable levels of debt. In fact, two-thirds of all students borrow less than $25,000, 85% borrow less than $50,000, and only 4% of borrowers actually borrow more than $100,000 to attend colleges. And this data includes graduate and professional schools, so the graduates with the higher debt levels usually have the ability to repay these loans. **<u>Please note that about 1/3 of those who graduate do not have any debt at all.</u>**

Another student debt fact little known is that those who struggle with debt are generally those with small amounts of debt (less than $5,000) who do not graduate. In her recent book, Sandy Baum, a well-known expert on student debt, says: "the problem is not borrowing per se. It is borrowing for programs of study that are unlikely to pay off. It is borrowing more than can be justified by the expected payoff. And it is the uncertainty involved in the investment, which pays off very well on average and for most people, but not for everyone." (Baum, <u>Student Debt, Rhetoric and Realities of Higher Education Financing</u>).

In other words, unlike consumer loans, student loans are an investment in your future and can pay big dividends (on average $1 million more in lifetime earnings than those with a high school education). However, like all borrowing, it must be done wisely.

<u>Financial Literacy and Transparency</u>

I would like to begin by noting the important difference between sticker price and net price at Pennsylvania's private colleges and universities.

<u>Chart # 3 details the change in the average net price charged to needy students over the past 5 years</u>

AICUP institutions have responded to stagnant family incomes since the great recession by substantially increasing their institutional grant aid. Indeed, while the sticker price increased from $25,273 to $31,463 between 2007 and 2012, the net tuition only increased by $971. A small percentage of students will pay the sticker price, but the vast majority is paying closer to the average net price.

Private colleges must do a better job of getting the word out about how affordable they actually are. We need to be transparent about our cost, even though this is made difficult by the primarily need-based financial aid system most of our colleges use. A new federal tool, however, is improving the transparency about cost, graduation rates, future earnings, and other information that prospective students and parents may want to know about a college. **<u>Chart # 4 & 5 are from the</u> <u>College Scorecard</u>**. The scorecard, published by the U.S. Department of Education, provides a wealth of valuable information to families and students. The Scorecard provides an extensive list of postsecondary institutions across the nation sorted by programs/degrees, location, size and other details including cost, graduation rate, and salary after attending. Chart 5 also shows the projected financial aid and debt as well as the earnings expected at a school.

Chart # 6 and 7 depict two other college cost sites that provide detailed information about colleges and universities in Pennsylvania and across the country. The College Navigator is available from the National Center for Education Statistics and UCAN provides information regarding private colleges and universities in the state and country.

Chart #8 focuses briefly on SALT, which is a financial literacy program that AICUP recently started to promote with our colleges and universities. While individuals can access this website, postsecondary institutions can also pay a fee to include all of their students, alums, faculty and administrators to get detailed information about their student debt and ways to address it. Coupled with college counseling, this is a powerful tool to help students and parents get a handle on debt at the very beginning or even before starting a postsecondary institution.

As you can see, many tools already exist to promote financial literacy and an understanding of the cost/benefit of a college degree from specific institutions.

Recommendation for the Legislature to Address Student Debt

I would like to conclude my testimony by noting something very important the legislature can do to improve the student debt problem for your constituents: reinvest in the PHEAA Student Grant Program. **Chart# 9** and **Chart #10** show the decline in state support over the last few years for what was once one of the best student grant programs in the country. You can see that the state funding for this program has fallen, while augmentations from PHEAA's earnings have increased though not at the same level of the state disinvestment. State funds that use to be used to support need-based student aid for students in all sectors of higher education are now being diverted to other areas of the state budget. **Consequently, low and moderate-income Pennsylvania students have lost significant purchasing power over the last decade as Chart# 11 shows**. The maximum grant has not been fully funded since 2007-08 when the grant was $4,700 per student. Now the grant is at 93% of what the formula should drive out or $4,378 per student.

Another student aid program sponsored by Senators Ward and Alloway and passed by the General Assembly is the **Ready to Succeed Scholarship (RTSS) Program**. This program is for the middle income families with a maximum income up to $110,000 and was specifically established to address the debt issue. This program is funded at $5.0 million for 2016-17 and has been level funded since its inception. Last year over 7,000 eligible students and their families did not receive an RTSS grant. The maximum grant under this program is $2,000 and students must be in their second year of college and maintain a 3.28 cumulative grade point average.

These dollars were provided to help keep students and their families from assuming additional debt. Financial aid officers tell me that students who receive an RTSS scholarship will swap out loans with the RTSS funds. While all of higher education received that 2.5% increase last year, RTSS was once again held at $5.0 million.

As you know given your recent conversation on performance budgeting, the best budgets are those that target the resources to where the need clearly exists. PHEAA and RTSS are great programs run by a great agency and they have the best performance record in higher education for getting resources to those who have demonstrated the need for state support.

Thank you for your kind attention and if I can answer any questions, I will be happy to do so.

CHART 1

Average Amount Borrowed by Undergraduate College Students in Pennsylvania

Public, 4-Year Colleges and Universities	$33,547
Private, Nonprofit 4-Year Colleges and Universities	$32,833

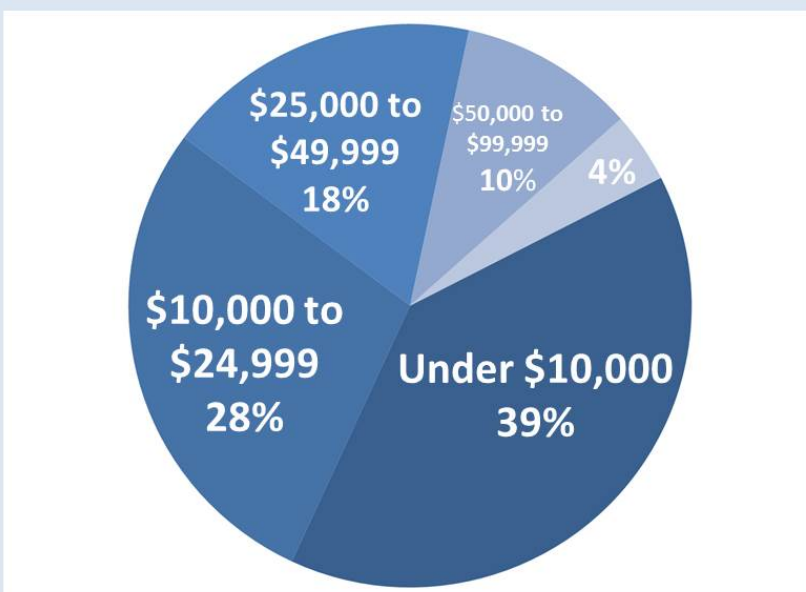
Loan Default Rates (2013 cohort)

	Pennsylvania	National
4-Year Public Institutions	6.0%	7.3%
4-Year Private Institutions	4.8%	6.5%
Community Colleges	15.7%	18.5%
For-Profit Schools	15.7%	15.0%

Source: Data on education loans for 2013-14 includes both federal loans and private loans and is compiled by College-Insight.org. Loan default rate from U.S. Department of Education, Office of Federal Student Aid.

CHART 2

Borrowers by Size of Outstanding Student Loans



Source: College Board, Trends in Student Aid 2014

CHART 3

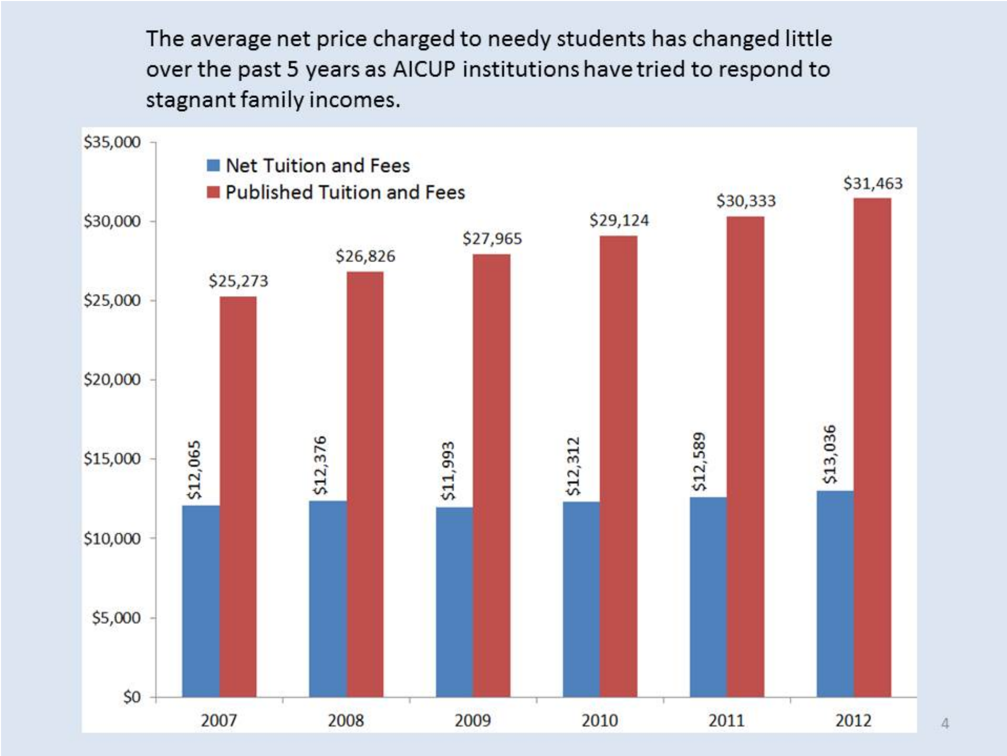


CHART 4

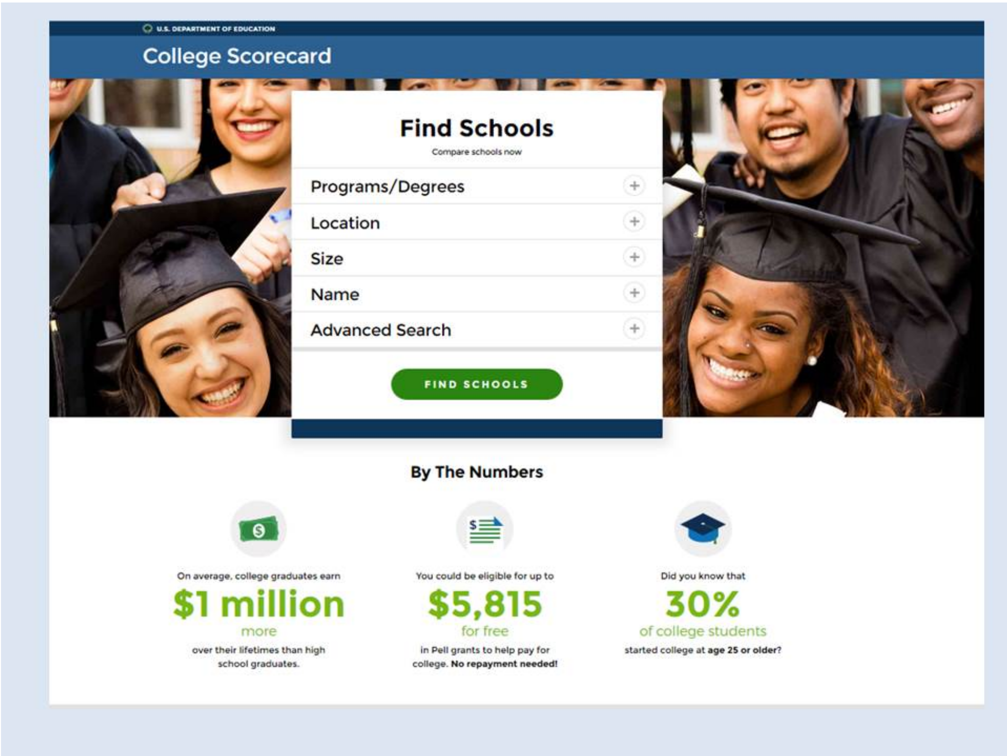


CHART 5

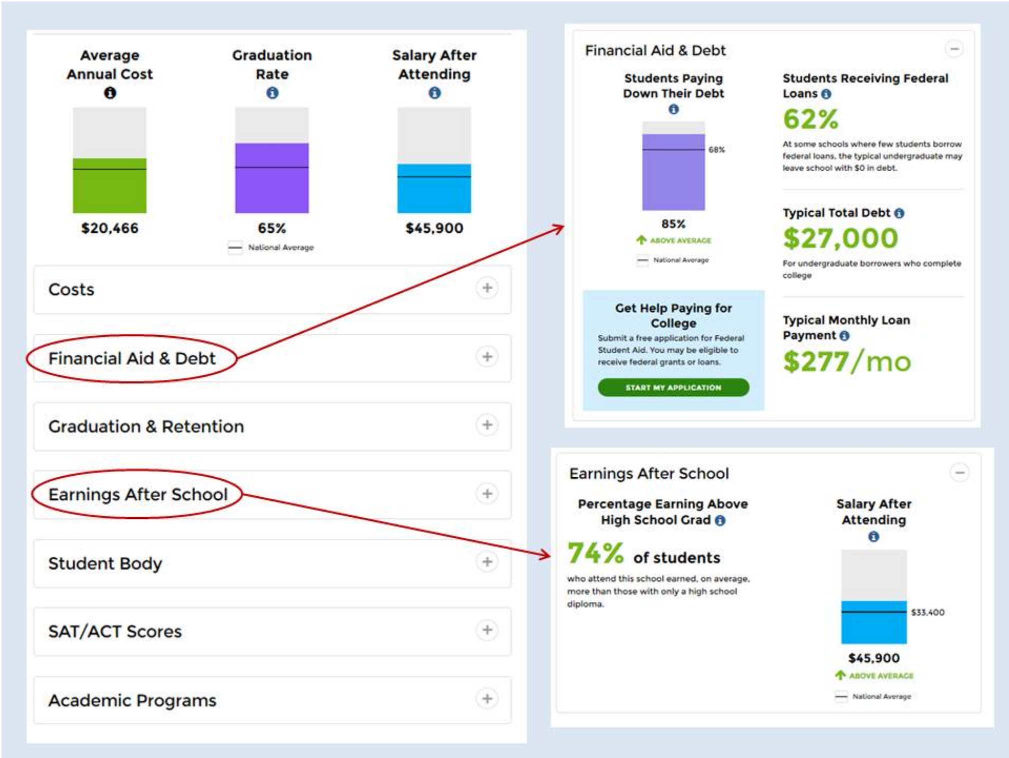


CHART 6

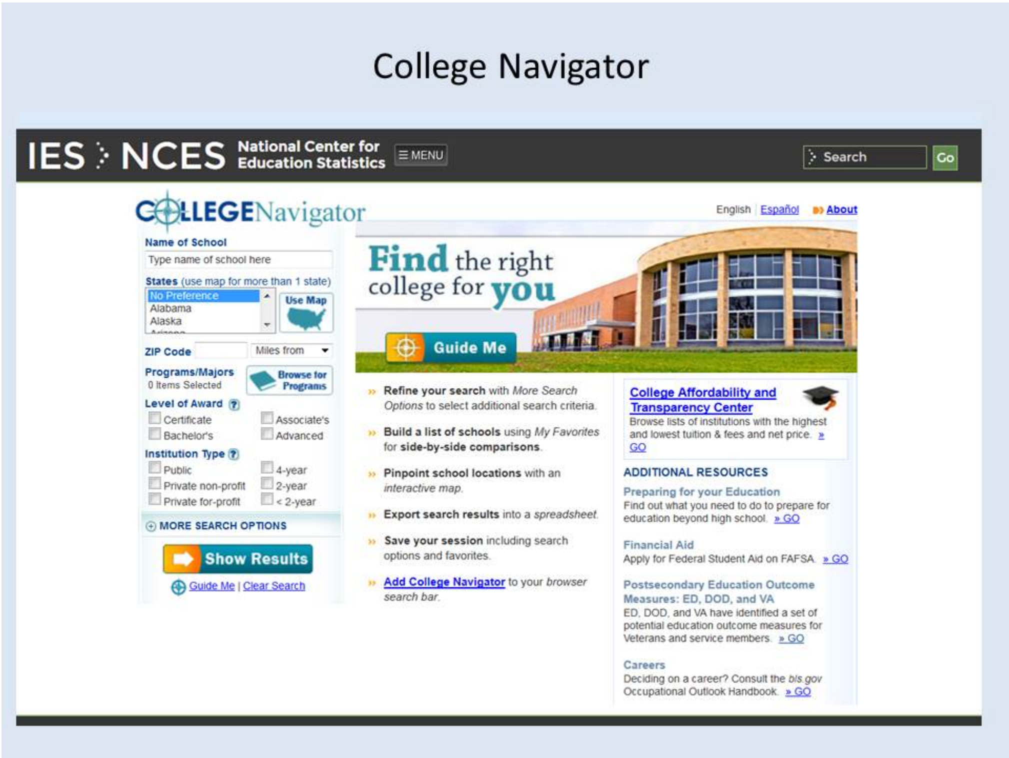


CHART 7

CHART 8

CHART 9

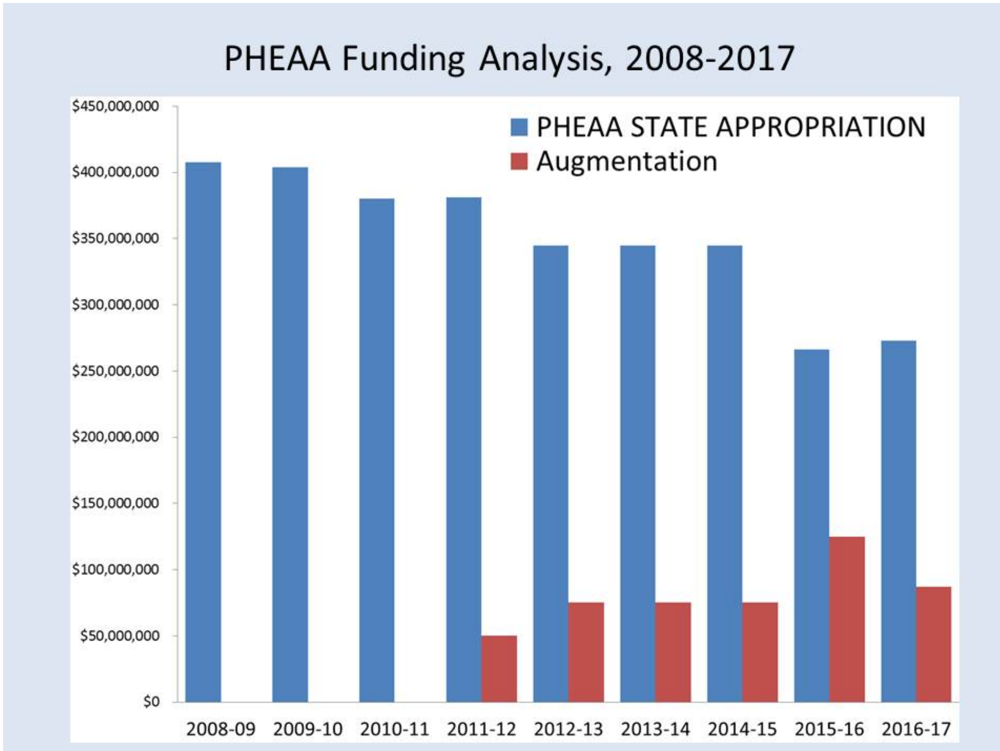


CHART 10

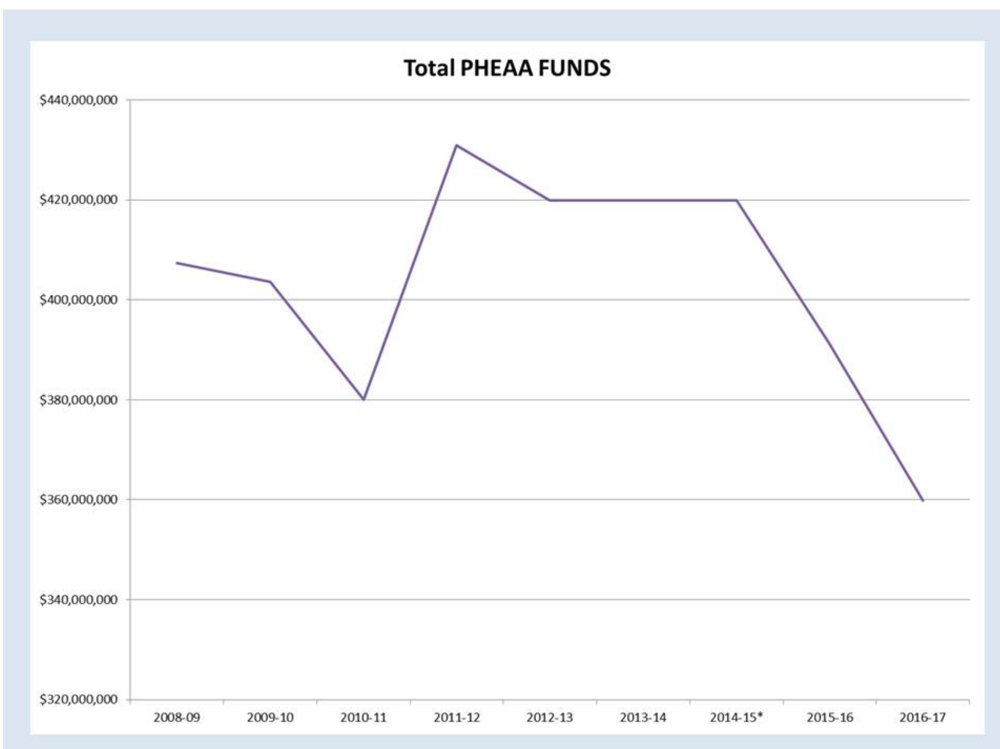
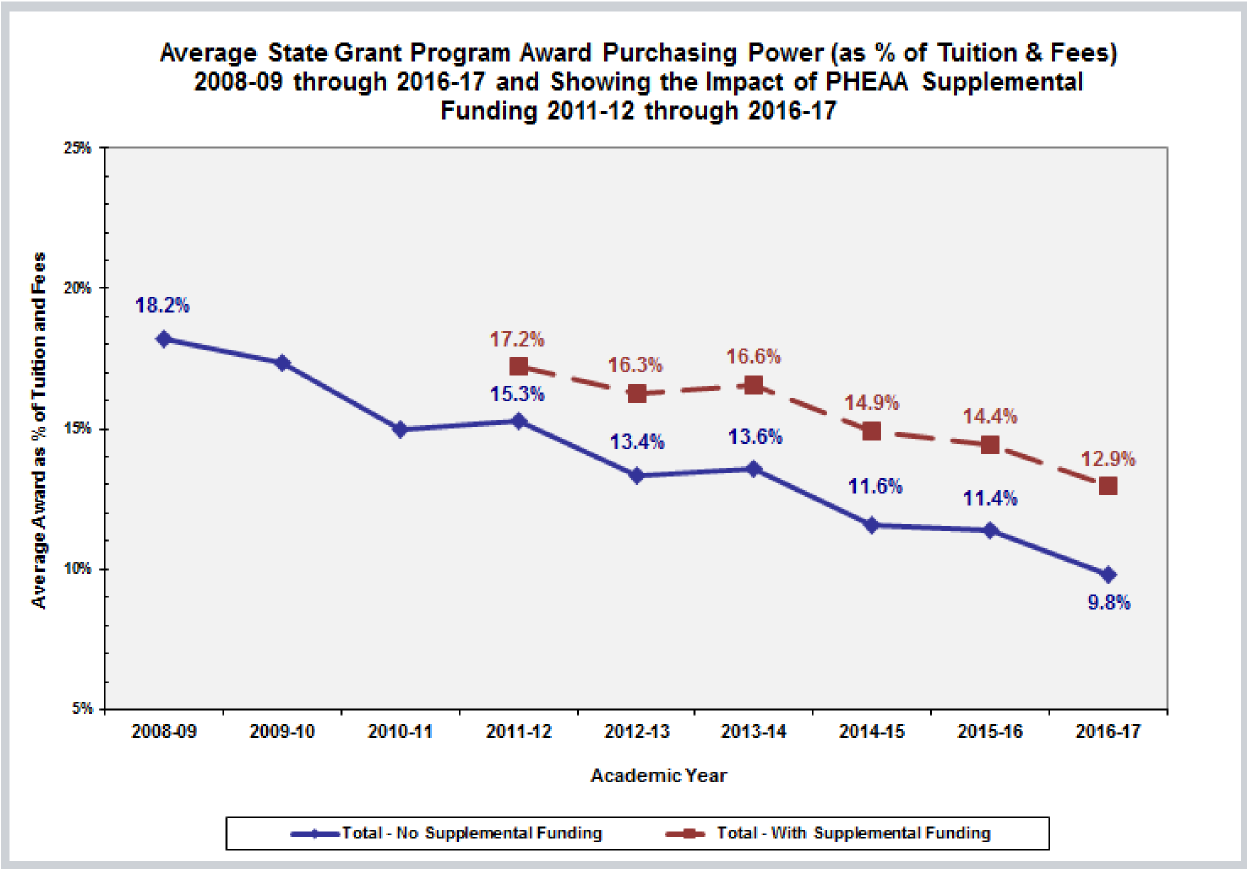


CHART 11



Average State Grant Program Award Purchasing Power (as % of Tuition & Fees) 2008-09 through 2016-17 and Showing the Impact of PHEAA Supplemental Funding 2011-12 through 2016-17
25%
20%
15%
10%
5%
Average Award as % of Tuition and Fees
18.2%
17.2%
15.3%
16.3%
13.4%
16.6%
13.6%
14.9%
11.6%
14.4%
11.4%
12.9%
9.8%
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
Academic Year
Total - No Supplemental Funding
Total - With Supplemental Funding