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# Barriers to Higher Education

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# Barriers to Higher Education

## **Abstract**

[Excerpt] In this report, we focus on the pathway to higher education, scanning existing research for evidence of any barriers that block families and their children from achieving their educational goals. We are interested here in what barriers still exist and how they vary by factors like income and family background.

Essentially, we want to gauge the extent to which a child's merit—his or her academic ability, separate from family income, wealth, or background—is truly a determining factor in helping him or her get into, and graduate from, a good school in order to tap into the advantages that a college education provides in today's economy.

Why does this matter? Because a clear pathway to a college education is a clear pathway into the middle class. We don't intend to imply that post-high school education or training is a cure-all to any economic problem one may face. In the current recession, for example, we've seen the unemployment rates of college grads double—folks of all skill levels have faced tough times. But we do know that absent some degree of postsecondary education, thriving in today's competitive, global economy becomes much more difficult.

## **Keywords**

Middle Class Task Force, higher education, tuition, unemployment, economic growth, economic crisis, public policy

## **Comments**

### **Suggested Citation**

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## **White House Task Force on Middle Class Families STAFF REPORT: Barriers to Higher Education**

### **Introduction**

The challenge of access to higher education has been a policy area of great concern to the Obama administration, and the President has consistently stressed the importance of education beyond high school. The Vice President and his wife, Dr. Jill Biden, along with Secretary of Education Arne Duncan, have also stressed these [themes](#), emphasizing the government’s role in boosting access to higher education, including community colleges, an alternative for which Dr. Biden is one of the administration’s strongest [advocates](#).

In fact, the Vice President’s Middle Class Task Force, in collaboration with Secretary Duncan and the Department of Education, examined the issue of access to higher education at a meeting back in April, when we published a [staff report](#) focused on college affordability. In that report, we stressed the importance of higher education in leading to higher earnings and greater economic mobility, and therefore, its role as a determinant of one of the most important aspirations of families across America, if not the globe: the ability of our children to realize their full potential.

In this report, we focus on the pathway to higher education, scanning existing research for evidence of any barriers that block families and their children from achieving their educational goals. We are interested here in what barriers still exist and how they vary by factors like income and family background.

Essentially, we want to gauge the extent to which a child’s merit—his or her academic ability, separate from family income, wealth, or background—is truly a determining factor in helping him or her get into, and graduate from, a good school in order to tap into the advantages that a college education provides in today’s economy.

Why does this matter? Because a clear pathway to a college education is a clear pathway into the middle class. We don’t intend to imply that post-high school education or training is a cure-all to any economic problem one may face. In the current recession, for example, we’ve seen the unemployment rates of college grads double—folks of all skill

levels have faced tough times.<sup>1</sup> But we do know that absent some degree of postsecondary education, thriving in today’s competitive, global economy becomes much more difficult.

We also know, as noted above, that middle-class parents’ ability to send their kids to college is often a central component of their aspirations. Many of us, as parents, feel an acute responsibility to help launch our children on a pathway that will help them realize their intellectual and economic potential. There are, of course, many such pathways, and an education from an elite private college is by no means the only ticket to success; America has a multitude of high-quality educational institutions that excel at providing our nation’s youth with the tools to succeed. But a good postsecondary education is a critical pathway to a successful career, and this administration strongly believes that every parent should have the ability to help provide a good education for his or her children. To find that your child cannot find his or her way forward down this pathway because some societal barrier is blocking him or her is one of the most wrenching experiences a parent can have.

These are intensely personal concerns, but such blockages are a major problem for society at large as well. It is highly inefficient to leave such potential “on the table,” depriving our economy of the productive contributions these future workers would make if they were able to access the education and training they deserve. In the antiseptic language of economics, these barriers leave society with less productive “labor inputs” relative to a counterfactual where these children can access schools at which they can fully develop their skills.

Both Barack Obama and Joe Biden faced and overcame barriers in their own lives, and it is thus no accident that they have elevated this issue as one of their top priorities. In this report, we provide the background and diagnosis of the existing barriers to higher education in America today. We say less here about our policy agenda to address these inequities—see our earlier Task Force staff report, as well as the reports on simplifying the [Free Application for Federal Student Aid \(FAFSA\)](#) and on [Section 529 savings plans](#) released today by our administration, for more information on policies to address these issues.

We find that while an individual’s merit is part of the story of access to higher education today, it is by no means the whole story. Some of our key findings are:

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<sup>1</sup> Over the course of the recession, the unemployment rate of four-year college graduates, 25 and up, more than doubled from about 2% to about 5% (the highest on record with data back to 1992). For those with terminal high school degrees, unemployment over the downturn went from about 4.5% to a high of around 10%.

- Family income is a major determinant of college enrollment and especially of college completion. While 78% of high school graduates from high-income families enrolled in college, the shares for middle- and low-income families were 63% and 55%.
- Middle-income children are about half as likely to *complete* college as wealthier children: they have a 25% completion rate, compared to 53% for children from families in the top income fifth.
- This finding persists even when controlling for merit or academic ability. About 30% of high-ability eighth-graders from low-income families later completed college, which is about the same as the share of low-scoring children from high-income families.
- Along with income barriers, recent research confirms the importance of information barriers. That is, children from less affluent backgrounds, even high-ability children, lack the “road maps” necessary to access college. Their networks fail to provide them and their families with the information they need to find a good, affordable school along with the financial aid for which they are eligible.
- For example, low- and middle-income students routinely eliminate colleges from consideration based on cost, before applying or even researching possible aid packages. In 2009, 50% of students from families with incomes less than \$35,000 and 47% of those with family income between \$50,000 and \$100,000 eliminated colleges based on cost before applying.
- Increased income inequality, stagnant incomes, and rising tuitions have increased the cost burden of college on middle- and low-income families, something the Obama/Biden agenda is deeply committed to offsetting.
- Even after typical aid packages, middle-income families pay a significant portion of their income for college, including room and board. Public four-year college costs about 16% of average after-tax income for these families, while private four-year college costs 36% and community college 11% of average income. These are clearly significant shares of total income for families trying to make ends meet.
- As a result, about 60% of college students borrow for college, and the real median debt level has increased over the past four years by 11%, from \$13,700 to \$15,100, a period when real income for middle and low-income families was falling.
- The Obama/Biden administration has put forth, and will continue to promote, a robust package of policies to significantly improve college access, cleaning the brush from this critical pathway to the middle class.
- Expanding our grants and loan programs are part of this agenda, as is vastly simplifying the application for federal aid.

## **Barriers to Higher Education: The Links in the Chain**

The process of getting a college degree—and we include certificates and two-year degrees in this discussion—involves many steps. A child must complete high school, apply to college, establish financing (including not just tuition, but also living expenses), and perform acceptably throughout their college career. Each one of these steps poses a challenge, and in some cases, these challenges can be steep.

Applying to college can be daunting and complicated. Research we cite below shows that even high-ability children from backgrounds that are less historically oriented toward college too often lose their way in the process of applying for school or seeking financial aid. It is in that spirit that the Obama administration has undertaken to vastly simplify the FAFSA form that students and families use to apply for federal aid.

Of course, paying for college is a huge hurdle for many families, and while considerable assistance exists for families without adequate means, this barrier remains difficult to overcome for too many families. In fact, as we show below, even once we control for “college-readiness” along various dimensions, students from low- and moderate-income families were significantly less likely to go to college. And when they did make it to postsecondary education, they were even less likely to graduate.

At the same time, attempts to address these income barriers to college are undermined by the complexity of the aid system and a widespread lack of information about what kinds of aid are available. Many families are not aware of important programs that can provide assistance in paying for college, and even well-informed parents can have difficulty navigating the bewildering array of tax-preferred savings programs for college that are available to them. As in the case noted above regarding high-ability students in low-informational settings, inadequate information about what aid is even available too often becomes a difficult hurdle to overcome.

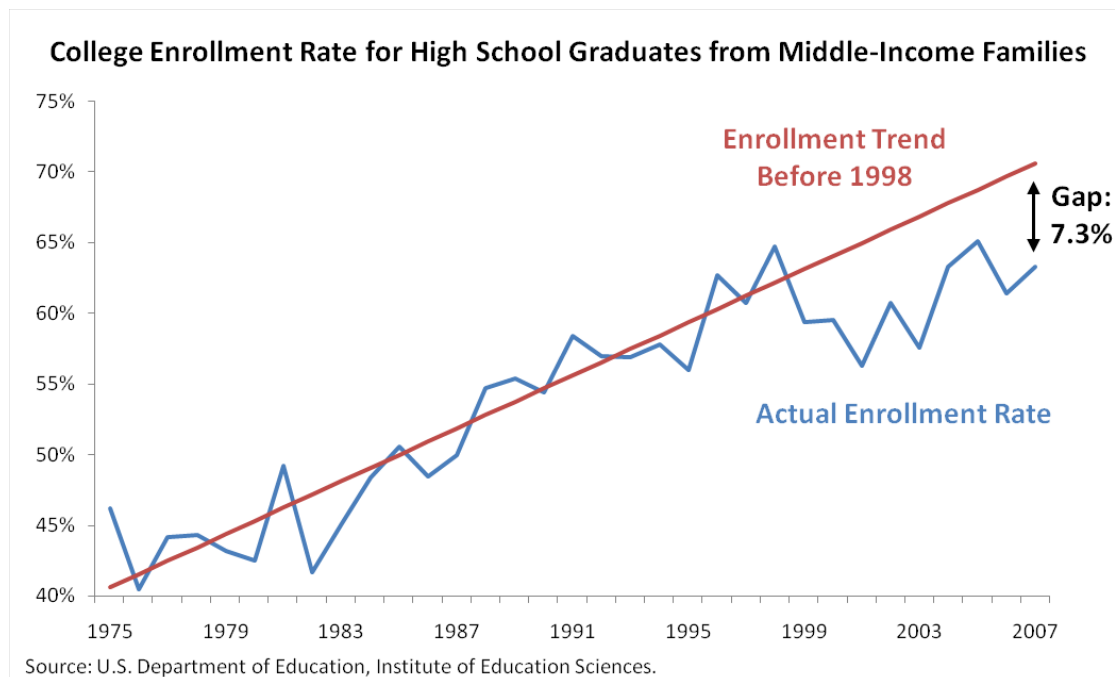
Addressing these non-financial barriers is particularly important given the actions we’ve taken, and our ambitious proposals for further action, to greatly expand college aid. The Recovery Act increased Pell Grants by \$500 to \$5,350 and created the American Opportunity Tax Credit, a new \$2,500 tax credit for four years of college tuition. The President’s 2010 Budget proposal would make these policies permanent and ensure the Pell Grant continues to grow steadily by making it an entitlement. Together, they provide approximately \$200 billion in college scholarships and tax credits over the next decade. If we want to maximize the benefits of these historic investments in higher education for America’s youth, it is critical that we address non-financial barriers to college, such as

lack of adequate, understandable information, in addition to working to overcome the income barriers discussed below.

## Evidence of Income Barriers

It is all too easy to show that family income and college attendance (and completion) are highly, and positively, correlated. High school graduates from middle-income families are significantly less likely to enroll in two- or four-year colleges than children from high-income families. Children from low-income families are even less likely to enroll. In 2007, the most recent year from which data is available, 78.2% of high school graduates from families in the top 20% of the income scale enrolled in college, compared to 63.3% for families in the middle 60% and just 55% for families in the bottom 20%.<sup>2</sup>

The trends in these data are also revealing. Since 1975, low- and middle-income high school graduates have increased their enrollment rates by 20 and 17 percentage points, respectively. But while the progress of the low-income group has remained fairly steady, the enrollment rate for the middle-income group has been essentially flat since the late 1990s. As the figure below shows, had the earlier trend for middle-class students kept up, 7% more would have enrolled by 2007.



<sup>2</sup> U.S. Department of Education, Institute of Education Sciences. Available at: <http://nces.ed.gov/programs/coe/2009/section3/table-trc-1.asp>

Though the persistent disparities in college enrollment rates between the children from high-income families and those from low- and middle-income families are unsettling, they are not unexpected. As income rises, children and their families face fewer educational disadvantages. They might attend better schools as they're growing up and be more exposed to the kinds of experiences and expectations that prepare them for college. What's needed to get to the heart of the question of access barriers by income class, then, is a way to compare children from different family backgrounds who are equally prepared for college.

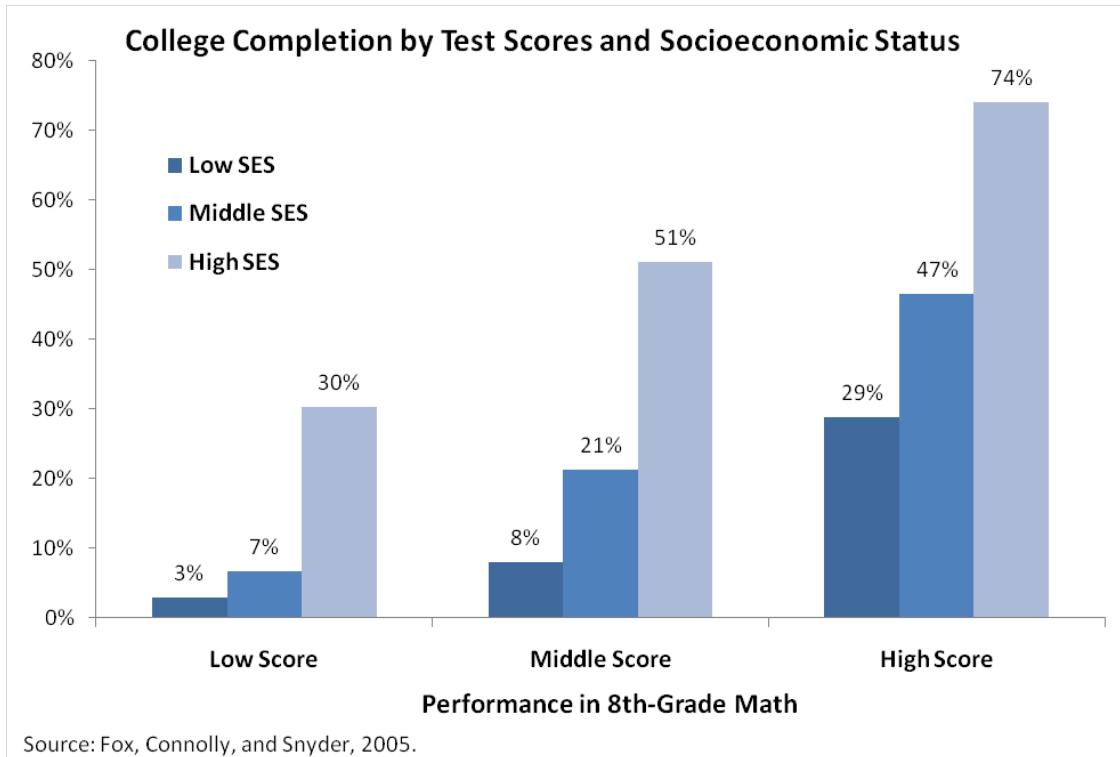
For example, what if we were to take two children with similar achievement scores on standardized tests? Once we start trying to control for "merit," would we still find that income mattered?

The answer to that question, unfortunately, is a resounding yes. In 2005, the Department of Education published the results of a twelve-year study of a group of students. These students were eighth-graders in 1988, and the Department of Education surveyed them over the next 12 years to track their educational outcomes. One striking result of this study is illustrated in the graph below: a student's socioeconomic status (SES, a measure that combines family income, parental education and occupation) was about as good a predictor of whether he or she would get a college degree as the student's test scores.<sup>3</sup>

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<sup>3</sup> Mary Ann Fox, Brooke A. Connolly, and Thomas . Snyder. "Youth Indicators 2005: Trends in the Well-Being of American Youth." National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education. July 2005. Available at: <http://nces.ed.gov/pubs2005/2005050.pdf>. The socioeconomic status was measured with a composite score based on family income as well as the parents' education levels and the occupations in which the parents worked.





This graph compares the college completion rates of children based on both their socioeconomic status and their performance on eighth-grade mathematics tests.<sup>4</sup> Unsurprisingly, college completion rates are consistently higher both for students with higher test scores and for students with higher socioeconomic status. However, as the graph shows, students with the lowest SES but highest test scores were *no more likely to complete college* than students with the highest SES but the lowest test scores.

This finding suggests significant income barriers to postsecondary education. If our system were based more on merit, we would expect students with similar abilities (measured in this case by test scores) to have similar college completion rates regardless of income or parent’s education. Yet that is not at all the message of this figure.

<sup>4</sup> For both math scores and SES, students are divided into three groups: the “low” group is the bottom quartile, the “middle” group is the middle two quartiles, and the “high” group is the top quartile.

## Other Barriers

As these figures unsurprisingly reveal, money matters. Even when researchers control for cognitive measures along various dimensions, we still find that children from higher-income families are significantly more likely to attend and complete college.

But what does this finding really mean? On its face, we might take it to mean that lack of income, in and of itself, is the barrier that got between these children and postsecondary education: regardless of their intellectual skills, they simply couldn't afford it. Case closed.

However, other research suggests that reality is more complicated. Researchers investigating advanced high schools in Chicago have found that informational barriers also play a determinative role in middle- and lower-income children's college attendance. That is, based on the raw skill, achievement, and talent of their children, families should be able to access pathways to college for high-ability children. But they often fail to do so, in part because they simply lack the "road maps" to those pathways. Too often, according to this research, middle- and low-income families never get the information they need to find a good, affordable school along with the financial aid—grants or loans—for which they are eligible.

As these researchers point out, their quite granular case studies reveal that:

Having strong qualifications does not alter the reality that these students often come from families and neighborhoods that are less able to provide concrete support and knowledge about the college admissions process. Too often, these students, like their neighborhood peers, struggle in taking the steps necessary to apply to and enroll in four-year colleges. In fact, one fifth of students in academically advanced programs do not even apply to a four-year college.<sup>5</sup>

Ultimately, the research identifies three institutional barriers faced by high-ability yet lower-income students:

***Unnecessarily restricted search.*** Based on their qualifications, high-ability students and their parents should be casting a wider search net, but they often fail to do so. In a study done in the Chicago Public School System, "about two-thirds (62%) of students attended a

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<sup>5</sup> Melissa Roderick, Jenny Nagaoka, Vanessa Coca, and Eliza Moeller. "From High School to the Future: Making Hard Work Pay Off." Consortium on Chicago School Research at the University of Chicago (April 2009). Available at: <http://ccsr.uchicago.edu/publications/Making%20Hard%20Work%20Pay%20Off.pdf>.

college with a selectivity level that was below the kinds of colleges they would have most likely been accepted to, given their level of qualifications.”<sup>6</sup>

***Too little support to “navigate the application process.”*** More advanced schools often have more complicated and demanding application processes, while it is often much simpler to apply to two-year colleges. At wealthier high schools, college counselors often have more training and access to more resources to help their students meet these demands, but this is much less likely to be the case in less advantaged schools. This disparity encourages some students from disadvantaged schools or backgrounds to attend two-year colleges as a kind of “default” choice rather than venture into the application process for four-year colleges. Students lacking structured support and individualized college guidance faced greater barriers in navigating the application process.<sup>7</sup>

***Lack of knowledge/exposure to financial aid possibilities.*** Too often, sticker prices produce sticker shock, and less advantaged students who lack the guidance to navigate the complicated skein of financial aid possibilities may never find out that their best opportunities are actually affordable.<sup>8</sup>

Other researchers have also argued that the dizzying complexity of the financial aid system and the sticker shock that comes from the inability of students and parents to estimate their own actual cost of attending college both tend to limit the efficacy of aid and to discourage students from enrolling in college. As education researchers Susan Dynarski and Judith Scott-Clayton argue:

The consequences of complexity and uncertainty in aid extend beyond annoyance and frustration. The intent of financial aid is to reduce the cost of college, thereby encouraging college attendance. We argue that complexity disproportionately burdens those on the margin of college entry, thereby blunting the impact of aid on their schooling decisions...high school students most sensitive to cost are unlikely to start down the path to college if they do not know it is affordable. For those on the margin of college entry, concrete information about aid simply arrives too late.<sup>9</sup>

These negative impacts have their largest effect on low-income students who, as mentioned above, have less support in navigating the process of applying to colleges and

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<sup>6</sup> Melissa Roderick, Jenny Nagaoka, Vanessa Coca, and Eliza Moeller. “From High School to the Future: Potholes on the Road to College.” Consortium on Chicago School Research at the University of Chicago (March 2008): Page 5. Available at: [http://www.diversityweb.org/research\\_and\\_trends/research\\_evaluation\\_impact/student\\_learning\\_outcomes/documents/FromHighSchooltotheFuturePotholesToCollege.pdf](http://www.diversityweb.org/research_and_trends/research_evaluation_impact/student_learning_outcomes/documents/FromHighSchooltotheFuturePotholesToCollege.pdf).

<sup>7</sup> Roderick, et al. (2008), Page 40.

<sup>8</sup> Roderick, et al. (2008), Page 41.

<sup>9</sup> Susan M. Dynarski and Judith E. Scott-Clayton. “The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics.” Available at: <http://www.ed.gov/about/bdscomm/list/hiedfuture/reports/dynarski-scott-calyton.pdf>

seeking financial aid. But the problem of sticker shock discouraging students from applying to or attending good colleges, in part because the opacity of the aid system leads students and their families to overestimate the cost of college, is by no means limited to low-income families. This is a major problem for middle-class students and their families as well.

For example, recent polling by Sallie Mae and Gallup revealed that when searching for colleges, both low-income and middle-class students routinely eliminate colleges from consideration based on cost, before applying to or even researching those schools. In 2009, 50% of students from families with incomes less than \$35,000 and 47% of those with family income between \$50,000 and \$100,000 eliminated colleges based on cost before applying. Their high-income peers do so much less frequently; students from families with incomes higher than \$150,000 eliminated schools based on cost before applying just 25% of the time.<sup>10</sup>

That means that before even applying to colleges and before learning how much financial aid they might receive, low-income and middle-class students are about twice as likely to eliminate schools from their search based on cost. Simplifying the financial aid process, so that students and their families can more reliably assess the true cost of a college education, will help students make more informed choices. Allowing students reliably to estimate how much aid they could receive may even encourage low- and middle-income students to apply to good schools they would otherwise have believed to be unaffordable.

In one sense, the nature of these barriers gives cause for hope. It seems likely that they could be overcome by providing students and parents with better information, which is something government ought to be able to provide. As detailed in our FAFSA simplification report, the Obama administration is already taking steps in this direction by simplifying the aid process so that students can better assess the true cost of college for themselves and their families. However, we must also acknowledge that in many cases, the social and educational networks that are not yet providing students with all the information they need are deeply entrenched. We believe that better, simpler, and more accessible information will ultimately alter diminished expectations and norms, but it will take time to better inform students and their communities about the opportunities available to them.

In our 2010 Budget, President Obama also proposed a new \$2.5 billion College Access and Completion Fund, which would build federal-state-local partnerships aimed at

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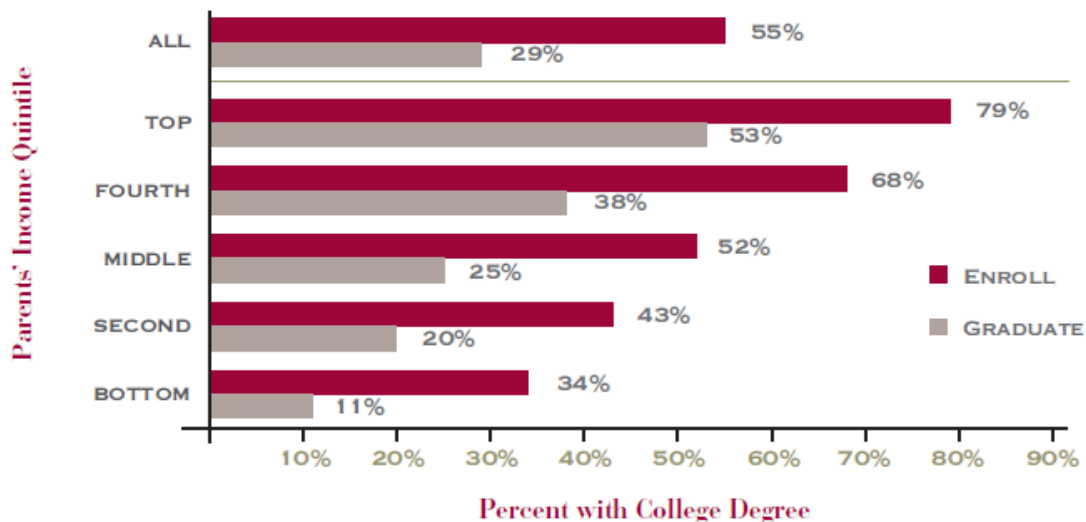
<sup>10</sup> Sallie Mae. "How America Pays for College: Sallie Mae's National Study of College Students and Parents, Conducted by Gallup." 2009. Available at: <http://www.salliemae.com/NR/rdonlyres/52D9FB57-D14A-46EA-A6D9-AECB284D13FD/11381/SLMGallupHowAmericaPaysReport082009FINAL4.pdf>

improving college access and completion, particularly for students from disadvantaged backgrounds. These funds would be used to evaluate programs aimed at increasing college enrollment and graduation and to grow and bring to scale programs that are proven to be successful. These programs could help to overcome the non-financial barriers to college that we document above.

It is worth considering in this context that in addition to the barriers to enrollment we discuss above, there is another income-based difference in postsecondary educational success, which programs like this one also seek to address: the gap between college enrollment and college completion. Even when children from low- and middle-income families are able to overcome initial access barriers and enter college, they complete postsecondary schooling at significantly lower rates than students from higher income families.

As the figure below illustrates, completion rates reflect an even greater income disparity than enrollment rates. For example, 79% of children from the top income quintile enroll in college, compared to 52% for the middle quintile, meaning that middle-income children are about two-thirds as likely to enroll in college as high-income kids.

But the relative *completion* disparity is much greater between children from these two income fifths. Middle income children are about *half* as likely to complete: they have a 25% completion rate, compared to 53% for children from families in the top income quintile. The story is much worse for low-income children; those in the top quintile are more than five times as likely to graduate as those from the bottom quintile (53% compared to 11%).



Source: "Promoting Economic Mobility by Increasing Postsecondary Education," Pew Economic Mobility Project, 2009.

## **Income, Inequality, Mobility, and the Cost of College**

The existence of income barriers to college attendance and completion is compounded by the fact that in recent years, middle-class incomes have stagnated while the economic distance between households from different parts of the income scale has increased dramatically (i.e., income inequality has grown). The incomes of too many middle- and lower-income families have failed to keep pace even with inflation, much less with college tuitions.

Between 2000 and 2007 (the most recent year with data available), the inflation-adjusted median income of working-age households fell 3.4%. The average income of families in the bottom 40% of the income scale also fell 3% over those years. Note that these real losses occurred in the context of an economic expansion that was highly productive—the American economy’s productivity, as measured by output per hour worked, increased almost 20% over these years.

The phenomenon that reconciles these diverging trends—stagnant incomes for middle- and low-income families amidst rising productivity—is, of course, growing income inequality. [As we have stressed](#), inequality, as measured by the share of income accruing to the top 1%, rose to its second highest level on record in 2007: 23.5%. The only year it was slightly higher in 1928, the year before the crash that began the Great Depression.

Stagnant or declining middle-class incomes and exploding inequality, when combined with the income barriers to higher education documented above, create a highly troubling situation. In America, we tend to worry less about unequal outcomes than we do about unequal opportunities. If everyone has a fair chance to succeed, we’re less bothered by the fact that some are much more successful than others.

But if unequal outcomes start to significantly limit the opportunities of the next generation along income lines, opportunity itself can become unequally distributed. In the presence of strong income barriers to higher education, unequal outcomes themselves—such as higher income inequality—lead to diminished opportunities.

As inequality increases and growth flows mostly to those at the top of scale, it is likely that children from higher-income households will have greater access to quality education—and more effective higher-education networks—relative to children from lower-income families. This limited access to quality higher education (and information)

for students from middle- and low-income families, in turn, limits the ability of those students to move up the income scale themselves.

Research by the Pew Economic Mobility project has documented how these educational barriers limit on income mobility, further increasing inequality. Of those adults who grew up in low-income families but managed to earn a college degree, only 16% ended up in the bottom fifth of the income scale as adults. But for those who failed to graduate college, the share that started out and ended up in the bottom fifth was 45%. In other words, among children who grew up in low-income families, those who failed to graduate college were almost three times more likely to remain in the bottom fifth as adults than those who went on to complete college.<sup>11</sup> Among children who grew up in middle-income families, 13% of those without college degrees managed to make the climb to the top fifth, compared to 40% of those who completed college.<sup>12</sup>

It is also important to recognize that as these income dynamics have been evolving, the cost of college attendance, especially at four-year institutions, has been on the rise. As the table below shows, this is true whether we're looking at "sticker price" (published tuition and fees) or net cost including grants, tax benefits, and room and board. Tuition and fees for public and private four-year colleges both rose significantly in the 2000s, even as middle-class incomes were stagnant or falling in real terms.

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<sup>11</sup> Lawrence Mishel, Jared Bernstein, and Heidi Shierholz. *The State of Working America 2008/2009*. And Economic Policy Institute Book. Ithaca, N.Y.:ILR Press, an imprint of Cornell University Press (2009).

<sup>12</sup> "Promoting Economic Mobility by Increasing Postsecondary Education," Pew Economic Mobility Project, 2009.

## **Costs of College, 2000-2008, in 2008 Real Dollars**

	<b>2000</b>		
	4-Year Colleges		
	Private	Public	2-Year, Public
Sticker Price (Tuition/Fees)	\$20,500	\$4,500	\$2,100
+ Rm/Board	\$7,800	\$6,200	\$6,800
- Grants/Tax Benefits	-\$7,900	-\$2,300	-\$1,700
<b>= Net Cost</b>	<b>\$20,400</b>	<b>\$8,400</b>	<b>\$7,200</b>
	<b>2008</b>		
	4-Year Colleges		
	Private	Public	2-Year, Public
Sticker Price (Tuition/Fees)	\$25,100	\$6,600	\$2,400
+ Rm/Board	\$9,000	\$7,700	\$7,300
- Grants/Tax Benefits	-\$10,200	-\$3,700	-\$2,300
<b>= Net Cost</b>	<b>\$23,900</b>	<b>\$10,600</b>	<b>\$7,400</b>
<b>Changes in Net Costs, 2000-2008</b>			
Real Dollars	\$3,500	\$2,200	\$200
Percent	17.2%	26.2%	2.8%

Source: College Board

As a result, in many cases, the costs facing middle-income students have risen faster than their incomes (with two-year college costs a notable exception). Even with financial aid, rising tuitions are a steep barrier to college attendance. Increases in tuition are very clearly associated with diminished attendance and completion: economists have found that a net price increase of \$1,000 reduces enrollment between 3 and 7 percent.<sup>13</sup>

Both the rising net price of college and the rising sticker price are important to families who want to send their children to college. While the net price is most relevant in terms of family budgets, it would be a mistake to totally dismiss the impact of sticker price on middle and lower-income families. As noted in the quotation from Dynarski and Scott-

<sup>13</sup> See, for example, Stephen V. Cameron and James J. Heckman, "The Dynamics of Educational Attainment for Black, Hispanic, and White Males," *Journal of Political Economy*, Vol. 109, No. 3 (2001), and Larry Leslie and Paul Brinkman, "Student Price Response in Higher Education: The Student Demand Studies," *Journal of Higher Education*, Vol. 58, No. 2 (Mar.-Apr. 1987).



Clayton's research above, sticker shock plays an important role in the decision of whether to apply for college, scaring potential students and their families off before they even attempt to take the necessary steps to learn about net price. And, of course, as the Chicago research cited above suggests, such information about net price is not always forthcoming, even to the low-income, high-ability students who arguably would benefit from such information the most.

That said, financial aid and living costs are key determinants of the cost of college today. In the case of four-year private colleges, these two factors largely offset each other, meaning that the total cost of college (including both aid and living costs) is fairly close to the sticker price of tuition. However, most college enrollees (about 75%) attend public colleges, and while tuition is significantly lower at public schools—less than half that of private for four-year schools—the inclusion of the effects of financial aid and the cost of room and board has a much larger effect on the total cost of college. Including aid and living costs for public colleges increases prices by 26%, or \$2,200.

Two-year public colleges, including community colleges, have the lowest annual costs, but the extent to which including the cost of living adds to the bottom line in the case of two-year institutions is even more striking. Once we account for aid, the average annual tuition for two year, public college tuition is negligible: \$100 in 2008. But according to these data, community college students, many of whom are young adults, pay \$7,300 for living costs. This hidden cost is an important reminder that those of us in the “barrier-removal business” must be mindful of the full set of costs that students face.

At any rate, net costs considering both aid and living expenses are about \$24,000 for four-year private schools, \$10,600 for public four-years, and \$7,400 for two-year public college. How does this compare with today's income levels? The most recent data from the Congressional Budget Office shows that the average after-tax income for families with children is around \$66,000 for families with middle-class incomes (those in the middle income quintile). Thus, public four-year college costs about 16% of their average income and private four-year college costs 36%. Of course, there is significant variation in the net cost of college for families with different incomes, and lower-income students are likely to face appreciably lower net costs. Nevertheless, for middle-income families, these are clearly significant shares of income for families trying to finance budgets that include all their other living costs, including mortgage payments.

## Student Debt

Most students, about 60% according to a recent Department of Education report, borrow for college.<sup>14</sup> Though certain kinds of borrowing can be risky, as was dramatically revealed in the last recession, borrowing for college is often a smart investment with very substantial rates of return on the loan. The liquidity of the student loan market is critical to maintaining access to college for middle- and low- income students.

Yet over-leveraging and inadequate access to, or understanding of, available loan products remain serious problems facing some student borrowers and their families. Analysis by the College Board finds that among borrowers, the real median debt level increased over the past four years by 11%, from \$13,663 to \$15,123, a period when real income for middle and low-income families was falling.<sup>15</sup>

There was also considerable variation around this median increase, with the largest percent increase for attendees of two-year colleges; students receiving a certificate at a public two-year college saw a 44% increase in their real median loan, from about \$4,500 to \$6,500. Given that the net tuition in these schools is significantly lower than these loan levels (see costs table above), it seems clear that these students are borrowing to pay for their costs of living while attending school.

Another consideration regarding debt is that while these median loan levels may well be manageable for middle-income families, loan sizes also vary considerably around the average. The College Board finds that 28% of borrowers carry loans above \$30,000, with 15% carrying loan debt above \$40,000.

The new Income-Based Repayment program, launched on July 1, is one important way the federal government is trying to help students and their families deal with these debt burdens, but it is worth noting that the program does not extend to private borrowing (most recently, 14% of all students and 33% of BA recipients had non-federal student loans).<sup>16</sup>

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<sup>14</sup> Patricia Steele and Sandy Baum. "How Much Are College Students Borrowing?" College Board. (August 2009). Available at: <http://professionals.collegeboard.com/profdownload/cb-policy-brief-college-stu-borrowing-aug-2009.pdf>

<sup>15</sup> Steele and Baum (2009).

<sup>16</sup> This "income-based repayments" (IBR) program went into effect in July. Whereas most loan plans are designed to repay balances over a set period of time, IBRs are based on the borrower's discretionary income. Monthly payments are calculated by determining how much the borrower's income exceeds federal poverty guidelines for his or her family. This is a new and compelling option for those taking out loans to pay for college, and in some instances, utilizing IBRs could [cut monthly payments in half](#). To learn how to qualify, visit the IBR [website](#).

## Conclusion

President Obama, Vice President Biden, and Secretary of Education Arne Duncan have consistently recognized the importance of postsecondary education in today's economy. And as can be seen from their education policy agenda, they've been extremely active in addressing the kinds of challenges documented in this report. The proposal in our 2010 Budget to increase grants and loans, paid for in part by the reduction of unnecessary subsidies to banks, is one part of this effort, but as announced today, simplifying the federal aid application and thinking about ways to enhance Section 529 college savings plans are also on the agenda.

However, the barriers to college access and completion described in this report are very old problems, and they will not be solved overnight. These limitations on access to college for middle-class families involve not only straightforward income barriers, but also a widespread lack of access to valuable information and networks and a pattern of rising inequality and diminished mobility that has evolved over the course of decades.

That said, readers should rest assured that these problems are well known to our administration and that correcting them—further opening up the pathways to postsecondary education for working- and middle-class families—is one of our top priorities. Despite rising tuitions and the increasing debt loads that are often required to attend college, higher education is still one of the best investments that students and their families can make, which is why we remain committed to promoting access to college. We understand and deeply appreciate that one role of government is to help ensure that all members of our society have the chance to realize their potential, both in terms of educational attainment and of living standards. Recognizing the barriers to college access and breaking them down is one key part of that role, a role that we will continue to pursue as part of the Obama/Biden agenda.