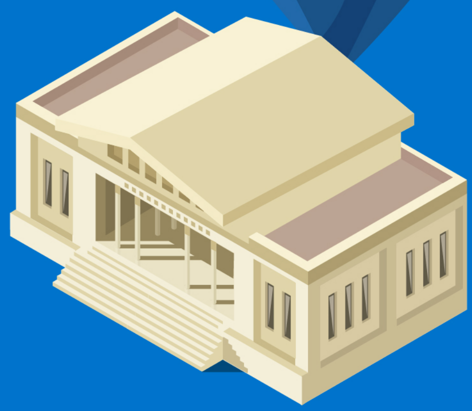
Free College 101



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Free College 101

Introduction

The push for free college is a recognition that the most well-traveled economic path to good jobs and the middle class requires at least some college for the vast majority of young Americans.[1] It is also a response to the reality that many students and their families are taking on large amounts of debt to finance increasingly pricey postsecondary educations. In the past decade, tuition and fees have increased 35 percent at public four-year institutions and 23 percent at public two-year institutions.[2] More than 43 million borrowers in the United States hold almost $1.5 trillion in student loan debt.[3]

Forty years ago, a student could work a minimum wage job during the year and earn enough to pay for the next year's tuition and fees at a public postsecondary institution.[4] State investment in higher education has been uneven and declining since the Great Recession.[5] In recent years, many public colleges and universities have raised tuition and fees to compensate for the drop in their state appropriations. Even as the cost has shifted from state governments to students and their families,[6] the purchasing power of the federal Pell Grant that helps to support lower- and middle-class students has declined.[7] In 1975, the maximum Pell Grant covered nearly 80 percent of attendance costs at public four-year universities, but now it covers only 29 percent.[8]

High school is no longer enough to prepare future generations for tomorrow's jobs.[9] Instead, at least two years of postsecondary education is necessary to secure a middle-class job in the modern US economy.[10] Unfortunately, college has become expensive, with tuition and fees at public four-year colleges and universities growing 19 times faster than the median family income since 1980.[11] The free-college movement can be seen as an attempt to return to a time when financial aid and government investment in higher education was substantial and enabled students to attend college without incurring significant financial burden or debt.

1 Carnevale et al., *Three Educational Pathways to Good Jobs*, 2018.
2 College Board, "Trends in College Pricing 2018," 2018.
3 Federal Student Aid Portfolio Summary, 2019.
4 Urban Institute, *Working during College*, 2017.
5 Government Accountability Office, *Higher Education: State Funding Trends and Policies on Affordability*, 2014.
6 State Higher Education Executive Officers, State Higher Education Finance FY2018, 2019.
7 Goldrick-Rab, *Paying the Price*, 2016.
8 Reich, *2018 Funding Bill Should Boost Pell Grants*, 2018.
9 Carnevale et al., " 'Career ready out of high school?' " *The Conversation*, 2018.
10 Carnevale et al., *Educational Adequacy*, 2018; Carnevale, "The sweet spot on free college," 2019.
11 Carnevale et al., *Career Pathways: Five Ways to Connect College and Careers*, 2017.

Free college is not a novel idea. Some may attribute this burgeoning movement to Senator Bernie Sanders' 2016 presidential campaign, but the idea has been around for decades. The Truman Commission of 1947 suggested extending the K-12 system into a K-14 system in which the first two years of postsecondary education would be free. The GI Bill that provided tuition and stipends to World War II veterans often is credited with increasing the share of college graduates in the workforce.[12] In 1960, California's Master Plan for Higher Education recommended that the state's four-year and community college system become tuition-free.[13] During the past two decades, US presidents from both political parties have advocated for education beyond high school as a key to a thriving economy.[14] The issue has surfaced during the 2020 presidential campaign, with multiple candidates either offering their own plan for free college or responding to questions on their stance against it.

Today, free college has become a catch-all term that refers to policies, programs, and proposals that address tuition-free and sometimes debt-free higher education. Most free-college programs or policy proposals apply to public colleges and universities, with many targeted specifically to the community college sector.

While free college seems like a straightforward concept, the enacted and proposed programs differ on several dimensions. These include:

- **Coverage of costs.** Which costs of attendance are covered? Free college programs usually address tuition and sometimes fees but, increasingly, advocates urge programs to cover additional costs for students, such as room and board, books, and transportation.
- **Eligibility requirements.** Is student eligibility universal or restrictive? Restrictions can be based on student characteristics such as age at college entry, full-time status, in-state residency, income or financial need, and grade point average.
- **Types of colleges covered.** Does the program cover tuition at four-year as well as two-year institutions?
- **Funding sources.** How is the program financed? State-level free-college programs pull from various revenue sources, including state appropriations, lottery funds, new taxes, and private and philanthropic investments. Proposals to enact free college at the federal level usually involve a federal-state partnership of shared costs.

Free-college programs traditionally have focused on providing a tuition-free education, but there is growing support for policymakers to guarantee a debt-free education.[15] Even if a college charges nothing for tuition, attending college is not really free if a student still has to pay for

12 Autor, "Skills, Education, and the Rise of Earnings Inequality among the 'Other 99 Percent,' " 2014; Stanley, "College Education and the Midcentury GI Bills," 2003.

13 University of California Educational Relations Department, "Major Features of the California Master Plan," 2007.

14 US Department of Education, *A Test of Leadership: Charting the Future of U.S. Higher Education*, 2006; Obama, "Address Before a Joint Session of the Congress," 2009; Trump, "Remarks by President Trump, Ivanka Trump and Wisconsin Governor Walker at Workforce Development Roundtable Discussion," 2017.

15 Huelsman, *The Affordable College Compact*, 2014; Mishory, *Path to Debt-free College*, 2018.

room and board, books, transportation, and other expenses. To make attending college debt-free, a program would have to use financial aid other than loans to address costs of attendance besides tuition.

Confusion surrounds the definition and implementation of free-college programs. This report discusses the basic terminology of free college as well as some common questions about education finance and student financial aid.

Higher Education Finance Terms

Cost of Attendance (COA)

The cost of attendance (COA) refers to the total expenses a student incurs to attend college. COA generally includes tuition and fees, room and board, books, supplies, transportation, and personal expenses.

Tuition and fees make up only 20 percent of the total cost of attendance at public two-year institutions and 40 percent of the total cost of attendance at public four-year institutions.[16] Research suggests that many students may struggle more with the additional costs and basic needs than with tuition itself.[17] COA is therefore an important factor to consider in debates about free college because students' ability to afford college goes beyond tuition and fees.

Cost versus Price

Cost refers to the amount that institutions spend to educate a student (e.g., cost would include faculty salaries and building maintenance).[18] Price is the amount that institutions charge students to attend.

The price students pay for college does not always match the entire cost of college. Colleges and universities use sources of revenue other than tuition—such as state appropriations and endowments—to cover the cost of educating students. The portion of college costs not covered by students' tuition is thought of as a subsidy.[19]

16 College Board, "Average Estimated Undergraduate Budgets," 2018–19.
17 Jones and Berger, *A Promise Fulfilled*, 2017.
18 Stoll et al., *Overview of the Relationship between Federal Student Aid and Increases in College Prices*, 2014.
19 Stoll et al., *Overview of the Relationship between Federal Student Aid and Increases in College Prices*, 2014.

Net Price

The net price for college refers to the total cost of attendance at the institution minus the grant aid a student receives.[20] The net price varies based on a student's individual socioeconomic status because financial need is often the basis of financial aid. By contrast, the list price or sticker price is the official price that colleges charge. Colleges differentiate the actual prices students pay by providing discounts through aid, which can include need-based financial aid and merit aid.

At private nonprofit schools, which are often tuition-dependent, colleges and universities use significant amounts of institutional aid to discount, or reduce, the price that students pay. Institutional aid can include merit aid, which is based on factors such as academic achievements rather than financial need. Institutions may use these discounts strategically to lower prices to attract students. Public institutions traditionally rely on state funding to keep tuition prices subsidized, particularly for in-state students, but as these funds have dwindled and tuition and fees have risen, some public schools turn to institutional aid as a way of discounting to attract students.[21]

Financial Aid Terms

Free Application for Federal Student Aid (FAFSA)

The Free Application for Federal Student Aid (FAFSA) is the official application for federal student aid, including grants and loans, at eligible postsecondary institutions. The FAFSA collects financial and other pertinent information from students to calculate their expected family contribution.

Expected Family Contribution (EFC)

The financial information reported on the FAFSA is used to calculate a student's expected family contribution (EFC). The EFC measures the financial strength of a student's family. The EFC is used to determine a student's eligibility for financial aid, but it does not necessarily measure how much a student will ultimately pay for college. The formula is established by federal law and considers taxed and untaxed income, assets, benefits such as unemployment and Social Security, and family size.[22]

20 Perna et al., *Questioning the Calculations*, 2019.
21 Hillman, "Tuition Discounting for Revenue Management," 2012.
22 Federal Student Aid, "How Aid is Calculated," 2019.

Pell Grant

The Pell Grant program provides financial aid to students who demonstrate financial need. Every student who files a FAFSA and meets the qualifications for a Pell Grant receives one. Unlike loans, Pell Grants do not need to be repaid.

Eligibility for a Pell Grant depends on a student's EFC in relation to the maximum Pell Grant amount established each year by Congress. The maximum EFC to qualify for a Pell Grant is 90 percent of the maximum Pell Grant. For example, for the 2019-20 award year, the maximum Pell Grant award is $6,195, and the maximum EFC to qualify for a minimum Pell Grant is 5,576.[23] In other words, a student is eligible for some amount of a Pell Grant if the student's expected family contribution does not exceed the maximum EFC amount. The amount of the Pell Grant depends on factors such as EFC, cost of attendance, and whether a student attends school full- or part-time.

The Pell Grant's purchasing power has been declining over the years because the maximum Pell Grant has not kept pace with college prices, either in terms of tuition and fees or the overall cost of attendance. In 1998, the maximum Pell Grant was $4,630, compared to $6,100 in 2018. However, tuition and fees at public four-year institutions more than doubled during that time, rising from $5,010 in 1998 to $10,230 in 2018.[24]

Pell Grants have been the main source of federal need-based grants for low-income students, but their purchasing power has declined as state investments in higher education have decreased and college prices have risen. Differences in the design of free-college programs can affect the amount of Pell Grants awarded to recipients.

Federal Student Loan Programs

The federal government administers the Direct Loan Program.[25] The program includes three types of loans—subsidized Stafford loans for undergraduates that cover interest payments while students are enrolled in school, unsubsidized Stafford loans for undergraduate and graduate students that accrue interest while the borrower is still enrolled in school, and PLUS loans for graduate students and parents of dependent students.

The government limits the amount that a student can borrow in Stafford loans, so when students reach the limit, they must access either graduate PLUS as a graduate student or parent PLUS through their parents as dependent undergraduates. These loans must be paid back with interest, and interest is not subsidized while the student is enrolled in school.

23 "2019-2020 Federal Pell Grant Payment and Disbursement Schedules," Federal Student Aid, 2019.
24 Based on 2018 dollars. College Board, *Trends in Student Aid 2018*, 2018.
25 Before 2010, the federal government administered the FFEL (Federal Family Education Loan) program, in which private lenders received government subsidies and insurance to provide guaranteed student loans. This program was eliminated, and the student loan program transitioned to a direct loan system in which the Department of Education is the sole lender.

Income-Driven Repayment (IDR)

When students begin to pay back their loans, the standard plan requires repayment within 10 years. For borrowers who cannot afford to pay off their loans in this time frame, Income-Driven Repayment (IDR) plans allow them to repay an affordable percentage of their income (from 10% to 20%) over a longer time period (such as 20 or 25 years).

There are five such plans—Income-Contingent Repayment (ICR); Income-Based Repayment (IBR); New Income-Based Repayment; Pay As You Earn (PAYE); and Revised Pay as You Earn. These plans differ as to which borrowers are eligible, monthly payment limits, and years of repayment, but all forgive the remaining balance at the end of the repayment period. The myriad forgiveness plans resulted from legislative and executive changes made over the course of multiple presidential administrations in response to budgetary and policy concerns.[26]

Since 2007, borrowers on an income-driven repayment plan who make 120 qualified payments (typically over 10 years) on student loans while employed in eligible public service, such as government or non-profit work, may qualify for Public Service Loan Forgiveness (PSLF). IDR plans can ease the burden borrowers face in making monthly loan payments, but they may not fully solve the issues of crushing student debt. For example, many borrowers have been confused by PSLF program requirements or been denied loan forgiveness under PSLF.[27]

Relationship between Financial Aid Programs and Free College

The previous financial aid concepts have implications for the design and implementation of free-college programs. Many free-college programs require students to fill out a FAFSA. Filing a FAFSA allows students to maximize their eligibility for federal aid and helps states to calculate appropriate aid amounts. This is particularly useful for free-college programs in which the states make up the difference between available federal grants and tuition (last-dollar programs). Therefore, by requiring a FAFSA even for free-college programs, colleges can encourage students to apply for financial aid that could cover expenses not covered by the free-college program. However, the FAFSA can be complex and potentially burdensome for students and families, particularly low-income and first-generation college students who may have trouble navigating college admissions and financial aid processes.[28] Free-college programs that require a FAFSA may encourage students who otherwise would not have pursued college or federal financial aid applications because the programs communicate a message of "free." [29]

26 Shireman, "Learn Now, Pay Later," 2017.
27 Turner, "Why Public Service Loan Forgiveness Is So Unforgiving," 2018.
28 Dynarski et al., "Closing the Gap," 2018.
29 Harris, "Is Traditional Financial Aid Too Little, Too Late to Help Youth Succeed in College?" 2013.

Current federal student aid programs usually use EFC to determine eligibility for financial aid, but free-college programs in the states may rely on different methodologies. These free-college programs may cover all students who meet eligibility criteria regardless of financial need, or they may use measures of financial need other than the EFC (such as family income) to determine eligibility. Even students who do not meet eligibility criteria for Pell Grants or subsidized loans could qualify for aid through some state or local free-college programs. The structure of a free-college program can affect the way in which students apply and qualify for federal financial aid and free college.

Specific Free-College Terms

Free-college programs have existed at the local level for more than a decade through local college promise programs and have proliferated at the state level as governments have created statewide free-college programs. These programs bring their own terminology related to aid distribution.

College Promise Programs

A college promise program is a place-based program that offers an early promise of tuition-free college or other financial support to students within a particular locale who meet specific eligibility requirements, such as graduating from a surrounding K-12 district.[30] The locale can be as narrow as a high school district or as large as an entire state. Typically, college promise programs aim to increase college-going and spur community and economic development in the region.[31]

More than 280 promise programs are operating at the local, regional, or state level.[32] These programs differ in the student populations they serve, the type of awards they offer, and the sources of funding that support the programs.

Many proposals and advocacy reports have argued that free college should have as universal an eligibility as possible, especially if enacted at the federal level.[33] In practice, states have used a range of criteria to restrict eligibility, often to control total program costs. For example, states may restrict eligibility to students who enroll immediately after high school or attend full-time rather than part-time. States also could impose financial need criteria such as income caps or limit availability to the community college sector. Another way for states to limit costs is to implement a last-dollar program in which the award is given only after other aspects of a student's financial aid are taken into account, including federal assistance. Even if the tuition-free program itself has broad eligibility criteria, the state can take advantage of existing sources of financial aid by awarding its free-college benefits on a last-dollar basis.

30 Hiestand, *The Promise of the College Promise*, 2018.
31 Miller-Adams, *Promise Nation*, 2015.
32 Perna and Leigh, "Database of college promise programs," n.d.
33 Deming, *Increasing College Completion*, 2017; Huelsman, *The Affordable College Compact*, 2014.

State Free-College Programs

In the 1990s, states instituted versions of early commitment college financial aid programs that provided college grants for students who met specified requirements while in middle or high school.[34] In the 2000s, states began designing promise programs as part of a burgeoning free-college movement.[35] In 2015, Tennessee Promise created a tuition-free program at community colleges for recent high school graduates, and the Tennessee Reconnect program started in 2018 to extend the promise program to returning adult students. Other states, such as New York and Washington, have started statewide free-college programs at two- and four-year colleges and universities for students whose family incomes are below a specified income limit.[36]

There is no federal free-college program, but promise programs recently have been the main avenue for delivering free college in the states. Some local leaders have gone beyond financial aid and incorporated academic and social support services such as mentoring into their promise programs in an effort to improve college attainment and retention.[37]

Tuition-Free Programs vs. Debt-Free Programs

Tuition-free college refers to programs that cover the price of tuition. Some tuition-free programs also cover the cost of fees. Some tuition-free policy proposals affect all or nearly all students.

Debt-free college refers to programs that do not require a student to apply for loans to pay for college. Debt-free policy proposals intend to address components of cost of attendance (COA) beyond tuition, such as room and board, books, and transportation, so students do not need to take out loans to pay for their otherwise unmet tuition and living expenses.

Most promise programs and state free-college programs focus on tuition-free college. A few programs may provide supplemental awards that could cover costs beyond tuition and fees, but comprehensive debt-free programs are still nascent.

Adding to the confusion, lawmakers and the media are referring to recent proposals in Connecticut and Minnesota as "debt-free" community college programs even though they actually cover only tuition and fees at community colleges for a limited subset of students.[38] When a free-college program does not cover living and other costs, students may be unable to avoid taking out loans.[39]

34 Mishory, *The Future of Statewide College Promise Programs*, 2018.
35 *See* Mishory, "Free College: Here to Stay?" 2018; and Jones and Berger, "A Promise Fulfilled: A Framework for Equitable Free College Programs," 2018, for an overview of state and local free-college program characteristics, including coverage, eligibility, and award type.
36 Mishory, *The Future of Statewide College Promise Programs*, 2018.
37 Willard et al., *Designing for Success*, 2019.
38 Blair and Altimari, "New Taxes, a Plastic Bag Ban and Debt-free Community College," 2019.
39 Baum and McPherson, " 'Free College' Does not Eliminate Student Debt," 2019.

Types of Free-College Awards

The three main structures of free-college awards are referred to as first dollar, last dollar, and middle dollar (also called last-dollar plus). These frameworks differ in how the free college benefit interacts with a student's current level of financial aid.[40]

First Dollar

First-dollar programs cover tuition first, so a student can use additional grant aid to cover costs of attendance, such as room and board, books, or transportation.

Last Dollar

Last-dollar programs award the tuition-free benefit to a student after existing grant aid, such as federal Pell Grants or state aid, is applied to tuition.

For example, if tuition is $10,000 and a student receives a $6,000 Pell Grant, the student would receive a last-dollar free-college program award of $4,000. By contrast, if this same student were enrolled in a first-dollar free-college program, $10,000 of the tuition would be waived. The remaining $6,000 in Pell Grant aid would be used to cover other costs of attendance, such as room and board.

Middle Dollar (also known as Last-Dollar Plus)

Middle-dollar programs supplement last-dollar programs with an additional stipend or scholarship to help offset living expenses. Even if a student does not receive any free-college aid because existing grants already cover tuition, the student could still qualify for an additional stipend.

Many free-college or promise programs award the free tuition benefit on a last-dollar basis. Some analysts have observed that this approach is less beneficial for low-income students because all or most of their tuition may already be covered by existing need-based financial aid. Last-dollar programs can assist families who may already be able to afford college.[41] Other analysts have argued that budget-limited states are implementing the most realistic versions of free college, particularly without financial support from the federal government. These programs can still benefit students who have critical gaps in federal financial aid and send a clear message that college in the state or locality will be tuition-free.[42] Middle-class students or students who do not qualify for need-based federal financial aid may still struggle to finance college without debt,[43] and students of all incomes may be encouraged to enroll when college is labeled free.[44]

40 Huelsman, *A Blueprint for College Without Debt*, 2018; Perna and Leigh, "Understanding the Promise," 2017.
41 Jones and Berger, *A Promise Fulfilled*, 2018.
42 Goldrick-Rab and Miller-Adams, "Don't Dismiss the Value of Free College Programs," 2018.
43 Goldrick-Rab, *Paying the Price*, 2015.
44 Carruthers and Fox, "Aid for all," 2016.

Free-college policy can be confusing because it can assume various forms. Today's free-college programs may cover only tuition and sometimes fees, but the amount of aid may depend on a student's financial aid, income level, or other factors. The details of free college as enacted at the state or local level could differ markedly from a federal program.

Federal-State Partnerships

Federal-state partnerships involve a shared fiscal responsibility between states and the federal government, often with specific federal guidelines and incentives. Classic examples of federal-state partnerships include Medicaid and the federal highway program.[45] In Medicaid, the federal government uses a matching formula to provide funds to states, and states implement and partially fund the program to insure low-income citizens.

Federal-state partnerships for free-college programs could spur investments from states that have been less generous in appropriating state money to finance higher education.

Most federal free-college policy proposals envision enacting tuition-free college through a federal-state partnership rather than merely increasing the traditional forms of federal student aid. Federal financial support for higher education generally flows to students in the form of financial aid that they can use at any eligible public or private college or university. Institutions may receive federal grants for research and specified educational programs, but states historically have funded the instructional and academic costs of public higher education institutions. A federal-state partnership offers a new funding model to decrease students' tuition burden.

Higher education professionals and politicians have begun proposing federal-state partnerships to implement free college at the federal level. A federal-state partnership would have some type of federal-state funding match or formula to help states reinvest money in their higher education systems while also helping to lower students' tuition or cost of attendance.

Members of Congress, policy advocates, and former presidents and presidential candidates have offered various federal-state partnership policy proposals. President Obama's free community college plan was a federal-state partnership—it proposed that the federal government cover 75 percent of tuition at community colleges, while states would cover 25 percent. As a candidate for the Democratic presidential nomination in 2016, Senator Bernie Sanders proposed a 2 to 1 match through which the federal government would cover two-thirds of the tuition revenue collected at two- and four-year institutions and the state would cover the other third. Senator Elizabeth Warren also revealed free college as part of her presidential platform for the 2020 election, most likely in the form of a federal-state partnership.[46]

45 Baum, *Examining the Federal-State Partnership in Higher Education*, 2017.
46 Team Warren. "I'm calling for something truly transformational," *Medium*, April 22, 2019.

Other federal-state partnership proposals use other formulas or tie the match to an existing appropriations amount. The Debt-Free College Act, introduced in 2019 by Senator Brian Schatz, would establish a federal-state partnership. In return for a dollar of federal funding for each dollar of state higher education appropriations, the state must invest the federal money to make higher education debt-free for students, with a priority for Pell Grant recipients. Policy organizations from the American Association of State Colleges and Universities to the Brookings Institution's Hamilton Project also have offered federal-state policy proposals that include full or partial tuition-free programs, debt-free programs, and universal or targeted programs intended to incentivize states to reinvest in public higher education and reduce prices for students.[47]

Typically, policy proposals for federal free-college programs are offered through some form of federal-state partnership rather than through a revision of federal Title IV student aid programs. In other words, enacting free college at the federal level can be more complex than simply giving students additional aid to cover tuition prices or wipe away debt. Instead, free college at the federal level realigns the flow of federal money to states and institutions by making a tuition-free or debt-free promise in an attempt to lower prices for students.

The Future of Free College

The term "free college" is deceptively simple because the details of designing and implementing free college at the state and federal level are still being debated. Even the terminology "free college" is controversial. People concerned about the cost may point out that college is not free and that somebody has to pay for it, most likely through new taxes or cuts to other programs. For students, even college in a free-college program can be costly if it fails to cover books, room, food, and transportation. These expenses represent as much as 60 to 80 percent of the total cost of attendance at public colleges and universities and often are particularly problematic for low-income students.

Still, others find the term "free" appropriate in the same way that public K-12 schools represent a free education system or that public libraries are free and accessible to the community. In other words, they realize that free college is not free but paid for by the government, like Social Security, Medicare, and the national highway system. This view of free college treats tuition-free higher education as an extension of public schooling.

Supporters of debt-free college may go even further and say that while student loan debt

47 Deming, *Increasing College Completion*, 2017; Hurley et al., *A Proposed Federal Matching Program*, 2014.

once might have been considered "good debt"[48] because of the expected financial returns of a college credential, financing today's students with loans is unsustainable. The argument for free college is bolstered by the concept that free college contributes to the public good because an educated citizenry benefits society.[49]

Historically, states have appropriated funding to operate public state institutions, while the federal government primarily has funneled financial aid directly to students in the form of grants and loans. Eliminating tuition, extending free college to more students, and covering expenses beyond tuition will require either substantially increasing student aid or revamping higher education financing. This significant increase in funding for higher education must be coupled with transparency and accountability. Future free-college policies likely will demand that colleges collect data about students' graduation rates and their subsequent employment and earnings with the goal of making that information available to the public. Decisions at the state and federal levels will determine whether free college becomes just another form of financial aid or a new model for public financing of higher education.

48 Avery and Turner, "Student Loans," 2012.
49 Berman, "Pete Buttigieg argues against free college," 2019.

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