AGENDA ITEM 8.

DISCUSSION OF COLLEGE AFFORDABILITY IN ILLINOIS: FY2006 MAP BUDGET IMPLICATIONS

Submitted for: Information

Summary: A slowly growing national economy, flat family incomes, rising tuition and fees, rising student loan debt levels, increased borrowing by parents for college, and the perception of insufficient financial aid all contribute to the impression that college is no longer affordable for low-income families and is less affordable than ever before for others. This impression also holds in Illinois, despite the impressive amount of state resources devoted to grant aid for students attending Illinois colleges through the Monetary Award Program (MAP) and the Illinois Incentive for Access (IIA) program. Only four years ago, Illinois received an "A" grade for college affordability in the study "Measuring Up 2000: The State by State Report Card for Higher Education." In 2002 we had slipped to a "B" and we will be downgraded again significantly in the 2004 report soon to be released.

Despite the cost, more students are finding it possible to attend college in Illinois and many are receiving aid from the state. In FY2004, over 141,000 students received MAP grants and 17,000 received additional help from the IIA program. But the aid isn't stretching as far as it once did. More than 50,000 eligible students did not receive a MAP award in FY2004 due to lack of funding and those that did saw the purchasing power of their awards decrease as college tuition and fees rose.

Very-low-income, dependent students attending community colleges saw their out-of-pocket cost rise from $943 dollars in FY2002 to $1,360 last year while those attending public universities saw their out-of-pocket costs rise to $4,464. For students from families with lower-middle incomes, out-of-pocket costs for community college are now $5,000 and over $8,000 at public universities. Independent students fared just as poorly.

Improving college affordability is expensive. To bring affordability back to FY2002 levels would require a minimum of $120 million. The appropriation for MAP awards would have to increase by $40 million to enable awards to be calculated based on FY2005 tuition and fees (currently 95 percent of FY2003 tuition and fees are used) and another $10 million would be needed to incorporate expected FY2006 tuition and fees. Removing the current 10 and 11 percent reduction factors applied to all MAP awards would cost at least $38 million and increasing the maximum award to $5,400 from the current $4,968 would cost at least $18 million. Accommodating an expected four percent volume increase would cost an additional $18 million.

Action requested: None.

Item 8.
9/24/04

ILLINOIS STUDENT ASSISTANCE COMMISSION
DISCUSSION OF COLLEGE AFFORDABILITY IN ILLINOIS:
FY2006 MAP BUDGET IMPLICATIONS

INTRODUCTION

Concerns about college affordability have captured the attention of policy makers nationwide. A slowly growing economy, flat family incomes, rising tuition and fees, rising student loan debt levels, increased borrowing by parents for college, and the perception of insufficient financial aid all contribute to the impression that college is no longer affordable for low-income families and is less affordable than ever before for others. This impression also holds in Illinois, despite the impressive amount of state resources devoted to grant aid for students attending Illinois colleges through the Monetary Award Program (MAP) and the Illinois Incentive for Access (IIA) program. Only four years ago, Illinois received an "A" grade for college affordability in the study "Measuring Up 2000: The State by State Report Card for Higher Education." In 2002 we had slipped to a "B" and we will be downgraded again significantly in the 2004 report soon to be released.

The past few years *have* been rough. Since state budget problems dictated a $38 million cut to MAP in FY2003, MAP funding has been relatively level while college tuition and fees in the state rose an average of 15 percent between FY2003 and FY2005. The number of students eligible for grant aid has also increased substantially. Some of the increase is coming from older, returning students, who attend college in larger numbers during difficult economic times and the remainder is due to larger high school graduating classes, with higher proportions of low-income students. High school graduating classes in Illinois are expected to increase throughout the decade as are the number of low-income and minority students who might seek to attend college.

Despite the tough times, more students are finding it possible to attend college in Illinois and many are receiving aid from the state. In FY2004, over 141,000 students received MAP grants and 17,000 received additional help from the IIA program. But the aid isn't stretching as far as it once did. More than 50,000 eligible students did not receive a MAP award in FY2004 due to lack of funding and those that did saw the purchasing power of their awards decrease as college tuition and fees rose. Many of these eligible students who did not receive awards were very poor, coming from families with an average annual income of about $18,000. These students have been the focus of several national research studies that all conclude with the same message – low-income students are being squeezed out of college – especially four-year institutions.

"Stretching MAP" is the focus of this paper – a discussion of how to target MAP grant aid to best meet the needs of low-income students. The goal is to provide adequate economic incentives to as many students as possible – thereby improving the overall affordability of a college education in Illinois.

COLLEGE AFFORDABILITY IN ILLINOIS IS DECREASING

The ability of Illinois families to meet educational expenses using a combination of their own resources and federal and state grant aid is the primary measure of the affordability of a college education.

Table 1: Defining the language of affordability analysis

TERM	DEFINITIONS
Expected Family Contribution (EFC)	A federally determined measure of a student or family's ability to pay for college based on income, assets, family size, number in college, and income tax obligations. The EFC is not a required contribution; rather it is a calculated amount that cannot be replaced with need-based aid
Remaining Need	A measure of affordability calculated by subtracting the EFC and the amount of need-based grant eligibility from the college cost.
Out-of-Pocket Costs (OOPC)	A measure of affordability calculated as the sum of the EFC and remaining need.

As shown in Table 1, affordability can be operationally defined two ways, in terms either of remaining need or out-of-pocket costs. Financial aid need analysis calculates an estimate of a family's ability to pay for college, called the "expected family contribution (EFC)". The EFC is used as a ranking measure to target financial aid to the students with the highest need. However, the EFC also functions as a pure rationing mechanism and may not reflect a family's actual ability to contribute to college costs. Remaining need is defined as the remaining cost of college attendance that is left to be paid by the student after state and federal financial aid and the EFC are subtracted from total college costs. Out-of-pocket cost is the sum of the student's EFC and remaining need - the total dollars that must come from the student or his family each year to pay college costs. Since FY2002, using either of these variables, affordability has declined for low- and lower-middle-income students at all school types.

As shown in Table 2, for low-income, dependent students attending community colleges, remaining need increased from $943 dollars in FY2002 to $1,360 last year. Given the current average community college tuition and fee increase of $202 for FY2005 coupled with constant aid levels, affordability will continue to worsen during FY2005. A $400 increase in remaining need might seem trivial until compared with the annual income of our poorest students, an average of about $15,000. A $400 increase is 3 percent of income, over a whole week's pay, and can present an insurmountable barrier to college attendance. For students from families with somewhat higher incomes, averaging around $38,000, the remaining need is even higher – almost $2,500, up from about $2,000 two years ago. In terms of out-of-pocket costs, the average lower-middle income family would have to come up with $5,000 ($2,500 EFC plus $2,500 remaining need) to send its child to community college - nearly seven weeks of gross income. Although a student loan could cover the out-of-pocket costs of most students attending community college, access to lower-cost federal student loans are not always available to students attending these schools.

Independent students attending community colleges have also lost ground. Remaining need for low-income independent students (without dependents), with an average income of about $7,300 has risen to $3,343 or nearly half their annual income. For independent students with incomes averaging $18,600, remaining need is $4,412 and out-of-pocket cost is now $9,441, over half their gross income, up from 43 percent in FY2002.

Table 2: College Affordability for Low-Income Students at Illinois Community Colleges and Public Universities.

	Dependent Students				Independent Students*			
	Community College		Public University		Community College		Public University	
	Students from the Lowest Income Families							
	FY2002	FY2004	*FY2002*	FY2004	*FY2002*	FY2004	*FY2002*	FY2004
College Cost	*$6,424*	$6,760	*$11,147*	$12,834	*$8,679*	$9,441	*$11,147*	$12,834
- EFC	*$0*	$0	*$0*	$0	*$1,004*	$733	*$1,004*	$733
NEED	*$6,424*	$6,760	*$11,147*	$12,834	*$7,675*	$8,708	*$10,143*	$12,101
- Pell	*$3,750*	$4,050	*$3,750*	$4,050	*$2,700*	$3,800	*$2,700*	$3,800
- MAP	*$1,731*	$1,350	*$4,786*	$4,320	*$1,731*	$1,565	*$4,786*	$4,471
Remaining Need	***$943***	**$1,360**	***$2,611***	**$4,464**	***$3,244***	**$3,343**	***$2,657***	**$3,830**
Out-of-Pocket Cost	***$943***	**$1,360**	***$2,611***	**$4,464**	***$4,248***	**$4,076**	***$3,661***	**$4,563**
Family Income	*$14,145*	$14,993	*$14,145*	$14,993	*$7,747*	$7,313	*$7,747*	$7,313
% OOPC/Family Inc.	*7%*	9%	*18%*	30%	*55%*	56%	*47%*	62%
	Students from Lower- Middle-Income Families							
	FY2002	FY2004	*FY2002*	FY2004	*FY2002*	FY2004	*FY2002*	FY2004
College Cost	*$6,424*	$6,760	*$11,147*	$12,834	*$8,679*	$9,441	*$11,147*	$12,834
- EFC	*$2,057*	$2,506	*$2,057*	$2,506	*$5,559*	$5,029	*$5,559*	$5,029
NEED	*$4,367*	$4,254	*$9,090*	$10,328	*$3,120*	$4,412	*$5,588*	$7,805
- Pell	*$1,700*	$1,500	*$1,700*	$1,500	*$0*	$0	*$0*	$0
- MAP	*$600*	$270	*$3,600*	$3,240	*$0*	$0	*$2,700*	$1,755
Remaining Need	***$2,067***	**$2,484**	***$3,790***	**$5,588**	***$3,120***	**$4,412**	***$2,888***	**$6,050**
Out-of-Pocket Cost	***$4,124***	**$4,990**	***$5,847***	**$8,094**	***$8,679***	**$9,441**	***$8,447***	**$11,079**
Family Income	*$34,824*	$37,764	*$34,824*	$37,764	*$20,103*	$18,584	*$20,103*	$18,584
% OOPC/Family Inc.	*12%*	13%	*17%*	21%	*43%*	51%	*42%*	60%

**Independent students without dependents.*

Although more grant aid is available for students attending public universities, higher college costs overwhelm the increase in aid, resulting in larger remaining need. For dependent students coming from very-low-income families, remaining need is $4,464 and for those students coming from lower-middle-income families, remaining need is almost $5,600 and out of pocket costs are over $8,000. Independent students also could be having severe affordability problems at public universities – out of pocket costs for the two lowest-income groups are about $4,600 and $11,100 respectively. Private universities, with tuition and fees often three to five times higher than public universities present an even greater economic challenge for low-income students, even with substantial institutional aid often provided by these colleges.

What makes the rising affordability gap - the gap between college costs and family resources - even more troubling is that the gap can no longer be covered by federal student loans. With the dependent freshmen loan limit set at $2,625 and the sophomore limit set at $3,500, many low-income students cannot cover their college costs even with student loans. Even the upperclassmen limit of $5,500 cannot be stretched to cover remaining need at some public universities and most private schools. While private sector alternative student loans are an option for some students and families, such loans are credit-based and offered at higher interest cost. How many students are actually precluded from attending college due to lack of funds is hard to determine, but an increasing concentration of low-income students in Illinois community colleges and lower-cost public universities has been seen in recent years.

Further complicating the analysis of affordability are the eligible students who are not receiving aid because MAP funds are insufficient to meet demand. We refer to these students as “suspended.” More students are being suspended each year because grant funding is not increasing at a time when more students are applying for financial aid.

MORE STUDENTS ARE APPLYING FOR FINANCIAL AID

Despite the rising cost of college, college attendance is rising. Students are price-sensitive consumers of education but other forces, such as the necessity of post-secondary education to obtain a well-paying job, are motivating students to attempt college, despite the cost. Announced financial aid application volume (applications from Illinois residents attending MAP-approved institutions) has increased significantly over the last several years. Year-end MAP application volume rose by 7.2 percent in FY2002, 6.1 percent in FY2003, and 6.7 percent in FY2004. FY2005 application volume has been between three and four percent over the same points last year. Some of the increase can be attributed to the state's current economic condition and the resulting loss of employment opportunities. During economic downturns, many individuals pursue education and training, especially at community colleges, as a means to enhance their employability.

THE COST OF EXTENDING AWARDS TO ELIGIBLE STUDENTS WHO APPLY LATER

The continued increase in applications has forced the Commission to reduce MAP award amounts as well as suspend award announcements in early to mid-August over the past several years. For FY2006, staff projects overall application volume to continue to increase at a similar rate as experienced this year, approximately three to four percent. If maintaining a similar suspension date becomes a priority for the Commission and assuming the inclusion of current tuition and fees, **the projected cost to cover a four percent application volume increase in FY2006 while suspending award announcements at a similar date as in FY2005 is $18.1 million. An additional $8.1 million would be required to make award announcements through the end of August.**

THE PRICE OF REGAINING COLLEGE AFFORDABILITY

In order to extend MAP awards to as many students as possible, rationing mechanisms have been put in place that reduce the size of the average award. A step toward regaining affordability would be the elimination of these rationing devices. The final FY2005 recompute formula recognized college costs based on FY2003 tuition and fee figures assessed at 95 percent and further reduced all MAP grants by at least ten percent. For the third consecutive year, tuition and fees were not covered for any student at any institution. During this period, college tuition and fees have increased from 18 to 37 percent by sector (Table 3). The actual paid maximum award for FY2005 will be equivalent to that of FY1999 yet will have to be applied to FY2005 tuition and fees.

Table 3: Tuition and Fees, Percent and Dollar Increases for Past Three Years

Sector	Measure	2001-02	2002-03	2003-04	2004-05	3-Year Increase
Public	**Avg. tuition & fees**	$4,798	$5,298	$5,808	$6,565	***$1,767***
Universities	**Percent increase**		10.42%	9.63%	13.03%	***36.83%***
Community	**Avg. tuition & fees**	$1,731	$1,830	$1,936	$2,138	***$407***
Colleges	**Percent increase**		5.70%	5.79%	10.43%	***23.49%***
Private &	**Avg. tuition & fees**	$16,326	$17,077	$18,051	$19,193	***$2,867***
Proprietary	**Percent increase**		4.60%	5.70%	6.33%	***17.56%***
All	**Avg. tuition & fees**	$6,527	$6,964	$7,320	$7,993	***$1,466***
Institutions	**Percent increase**		6.70%	5.11%	9.19%	***22.47%***

Removing the 95 Percent Assessment on Tuition and Fees

The Commission has not received funding to cover tuition and fee increases in MAP since FY2002. In FY2003, the Commission calculated awards using 2001-02 tuition and fee figures. This meant that no matter how needy a student was determined to be, awards were not calculated based upon actual costs, and no student, not even students with zero-EFC's would receive full tuition and fees at any institution. In FY2004, due to internal reallocations, the Commission was able to incorporate 2002-03 tuition and fees but only at 95 percent of their value. **The costs of recognizing full 2002-03 tuition and fees is projected at $8.4 million.**

Incorporating 2003-04 Through 2004-05 Tuition and Fees

Overall, the 2003-04 weighted-mean average tuition and fees increased 5.7 percent to total $6,964 for all institutions. By sector, weighted-mean tuition and fees totaled $17,077 at private and proprietary institutions representing an increase of 5.4 percent over the previous year. Tuition and fee amounts increased 5.7 percent to $1,830 at community colleges and increased 9.2 percent to $5,298 at public universities. The projected cost of incorporating 2003-04 tuition and fees over the 2002-03 costs is $16.4 million.

The weighted-mean increase in 2004-05 tuition and fees ranged from 6.3 percent at private and proprietary institutions to 13.0 percent at public universities for an overall average of 9.2 percent. The projected cost of incorporating 2004-05 tuition and fees over 2003-04 costs is $15.2 million. **The total cost of incorporating 2004-05 tuition and fees into the MAP formula in place of the 2002-03 amounts is projected to be $40 million ($23.6 million change from 2003-04.)**

Incorporating Projected 2005-06 Tuition and Fees

Over the past three years, weighted-mean tuition and fees have increased between 5.7 percent and 9.2 percent for an average increase of 7.2 percent. By sector, tuition and fees have increased an average of 10.9 percent at public universities, 7.3 percent at community colleges, and 5.5 percent at private and proprietary institutions. **Using these figures to project 2005-06 tuition and fee amounts, the cost of incorporating 2005-06 tuition and fees over 2004-05 costs is $10.1 million.**

Removing the Ten and Eleven Percent Reduction Factors

In response to a ten percent increase in application volume in FY2003, the Commission opted to reduce the amount of all MAP grants by five percent in order to continue to announce to mid-August. The Commission increased the reduction factor to ten percent in FY2004 in response to an eight percent increase in application volume. This allowed the Commission to continue to announce awards into early August. The FY2005 recompute formula maintained the ten percent award reduction factor for students with a Federal EFC under $3,000 but increased the reduction factor to eleven percent for those students with EFCs over $3,000. All students from all types of institutions would benefit from the removal of this reduction factor. **The cost to remove the ten / eleven percent reduction factors is projected to be $38.8 million. Partial removal of the reduction factor is also possible. Cutting the reduction factor from ten/eleven to seven percent would cost $12.3 million; to five percent, $19.9 million; to three percent, $27.4 million.**

Increasing the Maximum Award

The MAP award that a student receives is the lesser of the student's maximum eligibility, college tuition and fees or the maximum award established by statute. By FY2006, all public universities are expected to have tuition and fees above the current $4,968 level. Increasing the maximum award to $5,400 would enable some students attending some public institutions to receive grants that fully cover their tuition and fees. **The projected cost of this increase ranges from about $17.2 million to as much as $30 million when combined with other changes such as increased volume.**

IMPACT ANALYSIS: WHO BENEFITS MOST FROM ELIMINATING THE RATIONING MECHANISMS?

The elimination or reduction of each rationing device described above requires different funding levels and has a different impact on affordability for MAP-eligible students. Improvements in college affordability for students from the reduction or removal of any rationing device vary by both student family income level and college sector. In general, students attending schools with tuition and fees below the maximum award (community colleges and some public universities) benefit from the inclusion of up-to-date tuition and fees in the MAP formula. These students are not affected by changes in the maximum award and, in general, the increases in college tuition and fees since FY2003 has exceeded 11%, the current maximum value of the reduction factor.

At schools where tuition and fees are above the maximum award (all private institutions and the majority of public universities), only eligibility for students from higher-income families is affected when current tuition and fees are used in the formula. These students benefit because as tuition and fees increase the difference between college costs and family resources increases, increasing the size of the award (up to the maximum.) Reducing the award reduction factor benefits all students receiving awards; however, the dollar impacts are largest for students receiving maximum awards. Those students are concentrated in the private sector and the public universities with tuition and fees at or over the maximum award.

Increasing the maximum MAP award causes a distribution of affordability improvements similar to removing the reduction factor for students attending public universities and private institutions but it has no impact on students at community colleges (with tuition and fees well below the current maximum award.)

Table 4 describes the order of effectiveness for each change for each student by income level and school sector. To summarize, using current tuition and fees in the formula results in the greatest reduction in remaining need for low-income students attending community colleges because their awards are based on actual tuition and fees. However, at public universities, very-low-income students would benefit the most from removal of the reduction factor, since these students are already receiving the maximum award. Students in lower-middle-income range attending public universities would benefit from the inclusion in the formula of recent tuition and fees because their eligibility, and therefore size of their award, would increase. Since public universities' recent tuition and fee increases have been substantial (averaging over 10% per year), the increase in the size of the MAP award from an increase in eligibility can outweigh the award increase from removal of the reduction factor. However, these students also would benefit from removal of the reduction factor.

Both the inclusion of current tuition and fees in the MAP formula and the removal of the reduction factor improve affordability for low-income students. However, using current tuition and fees removes an unintended penalty that has been imposed on students attending traditionally low-cost institutions. A very-low income student attending a school today that charged $5,500 for tuition and fees in FY2003 receives the maximum award (now $4,471); however if that same student attended a school that charged $4,000 in FY2003 and $5,500 *today,* he would only receive an award based on tuition and fees of $4,000 – a maximum of $3,420.

Table 4: Best Strategies (in Order) for Improving Affordability by Income Level, Sector

Student's Income Level	Public Universities	Community Colleges	Private Institutions
Very Low Income (avg. $14,993)	Remove Reduction Factor Current Tuition and Fees Increase Max Award	Current Tuition and Fees Remove Reduction Factor	Remove Reduction Factor Increase Max Award
Lower Middle Income (avg. $37, 764)	Current Tuition and Fees Remove Reduction Factor Increase Max Award	Current Tuition and Fees Remove Reduction Factor	Remove Reduction Factor Increase Max Award Current Tuition and Fees
Higher Income (avg. $58, 782 or higher)	Current Tuition and Fees* Remove Reduction Factor* Increase Max Award*	Current Tuition and Fees* Remove Reduction Factor*	Remove Reduction Factor Increase Max Award Current Tuition and Fees

**unless the family has more than one child in college, only students with incomes in the first, second and lower half of the 3rd income quintile receive MAP grants at community colleges and public universities.*

Since lower income students tend to cluster at community colleges, public universities, and lower cost private and proprietary institutions (Table 5), changes that most help students in these sectors provide the greatest benefit to the lowest-income students.

Table 5: Number of MAP recipients in Each Sector, by Income Quintile* (FY2004 Paid Recipients)

Student's Income Level	Public Universities	Community Colleges	Private Institutions
Very Low Income (avg. $14,993)	**23,014 students** 32% of very-low-income students	**30,581 students** 42% of very-low-income students	**18,595 students** 26% of very-low-income students
Lower-Middle Income (avg. $37,764)	**13,753 students** 33% of lower-middle-income students	**14,070 students** 34% of lower-middle-income students	**13,782 students** 33% of lower-middle-income students
Middle Income (avg. $58,782)	**5,782 students** 29% of middle income students	**5,462 students** 27% of middle income students	**8,978 students** 44% of middle income students

** students in the first three income ranges received 95% of MAP awards*

Combining the data from Tables 4 and 5, indicates that using current tuition and fees in the MAP formula would be most beneficial to 42 percent of the lowest income students and 67 percent of the lower-middle-income students. About 58 percent of the lowest income students would benefit the most from removal of the reduction factor as would 33 percent of lower-middle-income students. Removing the reduction factor is the only adjustment that will significantly help all students in all sectors. Using current tuition and fees would correct a persistent inequity that hurts low-income students attending colleges that had tuition and fees under the maximum award in FY2003. These changes can also be combined for a given appropriation level. For example, a combination of FY2004 tuition and fees with a five percent award reduction factor would require approximately the same appropriation level as either removing the reduction factor entirely or incorporating FY2005 tuition and fees.

OTHER FACTORS TO CONSIDER: IMPACT FROM CHANGES ON THE FEDERAL LEVEL

The Advisory Committee on Student Financial Assistance (Advisory Committee) was created in 1986 to advise and counsel Congress and the Secretary of Education on student financial aid policy. The Advisory Committee recently conducted a study of the federal application and need analysis to determine ways to simplify the process. Several of their recommendations would have a financial effect on the MAP program. First, the committee has recommended the income threshold for automatic-zero EFCs be increased from $15,000 to $25,000. Therefore, if a dependent parent or independent student has income under $25,000, their EFC is automatically set to zero. Simulations indicate this change would cost the MAP program $5.6 million.

Another recommendation would reduce the work penalty and decrease the disincentive for students to work. This would be accomplished by lowering the assessment on a student's income and would also increase the income protection allowance by $1,000. Simulations indicate this would cost the MAP program another $3.2 million. Combined, these proposed changes to the federal need analysis would cost MAP just under $9 million.

Federal Pell Grant eligibility is considered in determining a student's MAP grant eligibility. Typically, the Commission has incorporated the current Pell grant table, either at start-up or at recompute, in order to have the most accurate information when calculating MAP eligibility. Staff recommended the Commission continue to use the 2002-03 Pell grant table with the $4,000 maximum since 2002-03 costs were used to determine MAP eligibility. For 2003-04, the maximum Pell grant was increased by $50 to $4,050 where it remains for the 2004-05 award year. Incorporating the new Pell table with the $4,050 maximum would save the MAP program approximately $800,000.

ISAC did not qualify for approximately $3.7 million in federal Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) funds SLEAP money for the 2003-04 or 2004-05 school years. Increasing matches in state appropriations is the main requirement for these funds and Illinois became ineligible due to the $38 million reduction in the MAP appropriation in FY2003 and subsequent level funding in FY2004 and FY2005. Unless new State funding of at least $8 million is provided for MAP in the next budget cycle, LEAP/SLEAP money will not be forthcoming for the 2005-06 award year.