Insight

SOTU Double Down: Income-Based Repayment and "Free" College

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In his final State of the Union address, President Obama doubled down on his support for expensive federal policies that fail to ensure the taxpayer's investment in education improve affordability or completion rates for the nation's colleges and universities.

During the speech, the president touted his administration's efforts to "reduce student loan payments to ten percent of a borrower's income," but failed to mention that his own 2016 budget reflects a $21.8 billion shortfall largely attributed to the rapid growth of the Pay as You Earn initiative (PAYE), an income based repayment program. This is the largest adjustment for any federal credit program anywhere in federal budget history. And, taxpayers are forced to foot the bill. Add in research by groups like the New America Foundation that finds the recently-modified PAYE program offers graduate and professional students free money by permitting them to write off massive chunks of their debt while still earning relatively high incomes, and you have the makings of ill-advised policy.

The president also touted his $60 billion free college initiative. Tuition free community college would seem to solve access issues for many potential students, but the logistics of the proposal are problematic. States would be on the hook for an additional $20 billion to fund such a program and 61 percent of community college students fail to earn a degree or credential in 6 years. It turns out that the payoff for such a wager is only $32 billion of the $80 billion combined federal and state investment required by President Obama's proposed free college program, given that so few students would attain a degree or credential. The majority – $48 billion- would be a loss.

This additional cost for states is no small commitment. AAF research found that a state would need to increase its annual appropriations by 5.1 percent to 5.7 percent (ranging anywhere from $8 million to $349 million) to cover the states' shares of the proposal's match requirement. For many states this additional fiscal burden could prove prohibitive. If so, and if one or more of the "Big Four" (in terms of 2-year college enrollment) states are either unwilling or unable to meet the incentive grant requirements, anywhere from 200,000 to 1.6 million students would be ineligible for the proposed public subsidy.

Research shows that the total college-going population in the United States is around 21 million, with about 15 million or some 72 percent of those students enrolled in public institutions. Free college proposals would not extend cost relief to students enrolled in private higher education programs. As a result, more than one in four college-going students would automatically be prevented from accessing any form of tuition relief. Of those enrolled at public institutions, about 6.8 million, or roughly 45 percent are enrolled in two-year community colleges. This means that the president's proposal would only benefit approximately one out of every three college students in the United States.

When policy proposals include significant amounts of public funding, the taxpayer has the right to expect a return on the investment. When it comes to higher education policy, the expected return comes in the form of more students earning college degrees. Unfortunately, President Obama's policies offer a lackluster return on investment.

Rather than floating $100 billion dollar programs that lack results and accountability for recipients, policymakers should focus on solutions that offer real debt free financing such as college savings plans and income share agreements. Solutions like these ensure access and outcomes, and reduce the regulatory burdens on institutions of higher education that lead to tuition increases.

Download the entire paper below.