Higher Education

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A deliberation about taking responsibility for the high cost of a college education.

Higher Education in America: How do we make it affordable?

A Quick Overview

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Data continue to show that those who get a college degree do better than those who don't. Post-secondary education has become a must-have for young people who hope to compete for jobs in an increasingly high-tech and evolving job market. In a nod to this reality, President Obama proposed a program that would provide 2 free years of community college. But that doesn't begin to address the high costs of a 4-year degree. Tuition rates have skyrocketed, far outpacing both inflation and the incomes of Americans. Students are finding themselves scrambling to pay and often end up with loans that forestall their ability to join society's ranks of independent adults. How do we manage the challenges of our current situation? Whose responsibility is it?

Identifying the Issue

The cost of tuition for four-year colleges and universities has been on the rise since the establishment of higher education itself. The first universities began to appear in Medieval Europe in the 1100's. During this time, governments and local churches covered the costs of education for all eligible students. At this point in time universities offered just 3 areas of study: law, medicine, and theology. We have undoubtedly come a long way from these primitive universities with the introduction of additional areas of study and quite frankly a host of additional resources for students and faculty. Additionally, the number of students attending these universities has been on a steady rise since the early 1900's. With the industrialization of America came the need for a highly educated society. Today, the importance of attending college has reached new heights. In this high tech world, students are scrambling to keep up with a constantly evolving job market. However, with the large numbers of students attending college and the inclusion of these new additions to universities, tuition costs are constantly rising at an alarming rate. Tuition on average has increased about 439% since 1982 despite the fact that the average American income has risen just 147% since that time.

The importance of these statistics comes down to this: the price of going to college today is becoming increasingly exorbitant and the need to alter the way the American people pay tuition is coming to the forefront of American politics.

Bob Hildreth from the Hunnington Post, addressed this issue quite eloquently in December of 2014 saying, "the problem spiraling tuition costs and diminishing benefits are the result of college's increasing dependence on federal and private student loans, colleges have continued to hike up their sticker prices with little risk as students and taxpayers absorb the financial burden of student loans." So in the hope of resolving this escalating issue, the question comes down to this: who should be taking on this enormous burden and who gets to decide? Here we find our stakeholder in this issue: American taxpayers, the government, college and high school students, parents of students said students, as well as universities and colleges themselves. Each of these stakeholders hold pivotal roles in this issue.

Solving the Problem at Hand

We have identified the problem, tuition fees today are too expensive for the average American student, but the most important part of this dispute is identifying how it can be solved. We will return to the aforementioned question: who should be taking on this enormous burden? Should the government be putting more tax dollars into the higher education system? Should we continue to rely on students to be taking out loans to battle the cost? Or should the universities be taking a bigger part in this issue and foot some of the exuberant costs of their tuition? With the recent proposal from President Obama for free two-year Community College, now more than ever before these difficult questions are calling for immediate answers.

The first approach puts the responsibility of funding higher education in the hands of individuals themselves. For most students attending a higher education institution, affording the cost alone would be nearly impossible. The average cost of attending a four-year higher education institution in America is $30,094 at private colleges, $8,893 for in-state residents at public colleges, and $22,203 for out-of-state residents at public colleges. In 2013 the median household income was $51,900, with college costing as much as half of a household's income and extremely limited aid, the issue of the amount of aid being distributed in relation to the need becomes disproportionate. By decreasing the requirements and limitations placed upon students for receiving aid, such as for Pell Grants, which do not have to be repaid, and increasing the amount of aid provided individuals would feel less of the financial burden. Other solutions to this problem include making private scholarships more accessible to college students, giving students better working opportunities, and teaching students about how to save their money starting from an early age.

The second approach towards a solution for the exorbitant price of higher education holds academic institutions accountable for increasing affordability. Higher education institutions continue to soar in price, in fact far more rapidly than the rate of inflation. These enormously high costs that have been implemented by universities themselves have created the troubling problem of $1 trillion in student debt. As universities continue to make improvements to both keep up with modern times and lure more students, the cost of tuitions also continues to rise to fund these amenities. Many extraneous expenditures such as recreational services or administrative staff could be reduced in order to aid in the tuition crisis. For example, digitalizing campus libraries could on average save higher education institutions $1.72 million and cutting the high costs of Division I athletics. With most universities boasting huge endowments it raises the question as to why they are not held accountable to lower prices and become more affordable for students. If students were not plagued by tremendous debt after college, undoubtedly many economic benefits could be reaped.

The third approach in solving the issue of tremendous higher education costs relies heavily upon the government to aid students. The Department of Education spends about $30 billion a year on subsidies for higher education.

The large majority of that funding goes toward student aid programs with the remaining balance going toward grants to educational institutions. The further breakdown of this equates to $27.6 billion for student aid programs, which includes $17.4 billion for student grants and $9.6 billion for student loans, $2.3 billion for grants to educational institutions, and $.6 billion in administrative costs. These federal dollars are seen as an investment in the future of America, as students graduating from institutions of higher education will go onto to stimulate the economy through better jobs and therefore increased tax revenue. Federal subsidies for higher education began in 1862 with the Morrill Act, which provided grants of federal land to states. By 1965 the government had taken on an enormous role in higher education through the Higher Education Act of 1965. This act, which has remained the basis of post-secondary education subsidies in the present day, included student loan and grant programs, college library aid, teacher training programs, and other subsidies. Since then the cost of higher education has soared drastically and the need for subsidies amongst the student population has continued to grow. From 2000 to 2008 alone, federal aid subsidies climbed from $10 billion to $30 billion to combat the rapidly growing cost of high education. The College Cost Reduction and Access Act of 2007, which cut federal subsidized interest loans in half, was another government effort to aid students. Despite this, many if not most students continue to struggle with financing their high education. President Obama recently announced a new solution, free two-year community college. While this may be an ideal solution to some, a tremendous burden would be placed upon taxpayers to foot the bill. With the United States already facing high income taxes, another burden may put us at European levels of taxation with a fifty percent of income tax. In Germany, as in much of Europe, extremely inexpensive to free education, has played a crucial role in this taxation crisis. Clearly, this free education is not actually free as it's being funded through taxation, but beyond this it is spurring the highest paid and most educated Germans to leave Germany for places that will allow for them to hold onto more of their income. If President Obama's plan is implemented could similar results occur in America?

An Overview of the Approaches

Approach 1

The high cost of college education may seem unaffordable, but reasonable planning can go a long way in accruing assets to meet educational goals. Through the use of tax exempt 529s and/or UGMA/UTMA plans established early in a child's life, paying for college can be a reality. In addition, as students approach high school graduation, they should spend time researching scholarships and grants. Finally, students can be selective and recognize that there are more and less expensive institutions and should make choices that both they and their future careers can afford.

Approach 2

The cost of higher education continues to soar, in fact, far more rapidly than the rate of inflation. These enormously high costs have created the trouble problem of $1 trillion in student debt. Much of the blame for these high costs rests with the institutions. As universities continue to make improvements to both keep up with modern times and lure the best students, they miss opportunities to save students money and instead raise tuition to fund these amenities. Many expenditures could be reduced in order to aid in the tuition crisis.

Approach 3

An educated citizenry is something worth investing in. From tax revenue generated from well-paid workers to broader economic innovation, a college-educated workforce is in the best interest of the nation. For this reason, the government, at both the state and federal levels, should increase its spending on higher education. Cuts over the years have shifted the burden to young people who only want to do what generations before them have done: get a college degree. In an economy that demands an adaptable, highly-skilled workforce, the government can't afford not to help.

Approach 1: Individual Responsibility

Even though the price of higher education is extreme, a little financial planning can go a long way. Currently, the cost of higher education is more than the average person can save, but this cost can be greatly impacted by the individual setting up savings plans, applying for scholarships and grants, or simply choosing schools and locations that are more affordable to them. Individuals should be responsible for planning accordingly for their education based on their wants, needs, and plans for life.

Nineteen years ago, Congress passed the Internal Revenues code which included section 529 and allowed for Qualified Tuition programs ("529 Plans: Questions and Answers"). These programs, commonly called 529 Plans, allow individuals to set up a savings account with high interest rates and minimum tax penalties to pay for higher education costs. These plans are offered by state governments or educational institutions to ease the burden of saving for college. Most recently, these plans have been revised to allow for the technological expenses that higher education also entails ("529 Plans: Questions and Answers"). Generally, 529 plans must be in place for long periods of time to accrue usable amounts for education costs. Should there be similar plans to more easily allow for short-term savings on the part of the actual student in order to ease the expenses of college?

Similar plans under the Uniform Gift to Minors and Uniform Transfers to Minors (UGMA/UTMA) plans offer high interest rates for providers wishing to benefit minors and potential students ("UGMA & UTMA Custodial Accounts").These plans are often used for college expenses, but unlike 529 plans, they have no specific restrictions on what the funds can be used for. These plans came into effect because minors are not allowed to own or control assets.

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529

Pros	
Tax-advantaged growth	Contributions grow federally tax-free and you may even get state income tax breaks.*
Tax-free withdrawals	Withdrawals are free from federal (and sometimes state) income tax if used to pay for qualified higher education expenses.*
High contribution limit	High limits on the amount you're able to save—sometimes more than $300,000.
Low financial aid impact	Minimal impact on financial aid.
Investment options	A range of available investment options, from set-it-and-forget-it to do-it-yourself portfolios.
Account control	Control stays in the hands of the account owner.
Minimum investment	A required minimum amount is needed to invest. This amount depends on the plan you choose, but most plans have low initial investments.
Con	
Costs & fees	Potential expenses could impact your savings.

* Earnings on nonqualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

UGMA/UTMA

Pros	
High contribution limit	No limit on how much you can contribute.
Investment options	A broad lineup of Vanguard mutual funds. If you're interested in individual securities, exchange-traded funds, or other companies' mutual funds, you can open an UGMA/UTMA through Vanguard Brokerage Services®.
Flexibility	No penalty if withdrawals aren't used for college.
Unlimited participation	No limit on who can contribute.
Cons	
Irrevocability	Contributions are irrevocable.
Account control	Once he or she reaches the age of majority, the beneficiary controls the money and can use it for any reason.
Sole beneficiary	You can't change beneficiaries.
High financial aid impact	Significant impact on federal financial aid. The account is treated as the child's asset and counted more heavily in calculations.
Taxable earnings	Earnings are subject to federal income or capital gains tax.

https://personal.vanguard.com/us/insights/collegesavings/paying-for-college

Students themselves have an important role to play. Early in high school, if a student decides college is a goal, he or she can begin to consider the path that will allow them to do that. Students should have a strong sense of the financial means at their disposal and look at options accordingly. For example, a student with little means to attend college may have to choose a less expensive school, generally public, like Clarion University where tuition for one year is $6,820 for a Pennsylvania resident ("Tuition & Fees"). This student should theoretically not choose a private institution like Juniata College where tuition is $38,630 ("Juniata College - Admission - Estimating Costs").

If a student with meager means does decide to go to a more expensive school, then they may need to consider various forms of financial aid. This student can plan to augment their high school career with impressive attributes to make themselves more appealing to scholarships, and plan to apply for these scholarships and/or federal grants. There are countless scholarships available for special populations, and those willing to fight for recognition from a nationally based award. Oftentimes, the scholarships available to the average student are in smaller amounts, which can certainly assist in the purchase of books, but do not contribute much to the overall decrease in the cost of higher education. Federal grants, such as the Pell Grant, are also available, but this grant is typically only available for those students who show the mot financial need. Should every student have the right to be awarded enough aid to choose any higher education path, no matter the cost? Should the search for scholarships be streamlined by official government databases, rather than the status quo of websites that send enormous amounts of spam mail? Should there be more scholarships and grants available to the middle road of students that are not in extreme financial need or possession of remarkable attributes?
The trade-offs for this section generally deal with the sheer amount of money that higher education requires. Typically, one person or their family cannot save enough money for the full cost of higher education. Federal grants, such as the Pell Grant, are also available, but this grant is typically only available for those students who show the mot financial need. Should every student have the right to be awarded enough aid to choose any higher education path, no matter the cost?
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The trade-offs for this section generally deal with the sheer amount of money that higher education requires. Typically, one person or their family cannot save enough money for the full cost of higher education. According to the savings calculator through the Vangaurd Group, a parent expecting to pay for the whole of college expenses for their child in 18 years at The Pennsylvania State University would have to deposit roughly $720 per month into a 529 account. This amount of money is simply unfeasible for a majority of people, especially if the parent has multiple children to educate. Can we really expect anyone to save this much for their children? How would students with no familial help ever hope to accrue this amount of money for their education? Another trade-off for this approach is the funding for extra scholarships needed to solve the issue of low financial aid. Would this money come from the government, alumni associations from high school or the university to be attended, or the university itself? The amount of scholarships needed to finance an individual's higher education simply isn't attainable due to the great competition for scholarships that currently tend to not provide a significant source of aid.

Approach 2: Institutions Must Control Costs and Tuition

Tuition rates in the United States are at an all time high and they show no indication of decreasing anytime soon. These inflated tuition rates could be blamed on many factors, but in the end, it comes down to the institutions of higher education themselves, which is why they should be held accountable for making education more affordable.

Whether it's due to higher rates of inflation, demand for more services, or just trying to stay competitive among rivals, at the end of the day, universities are the ones making the decision to raise tuition rates; therefore they should take on the responsibility of lowering them. College tuition is increasing at a national rate of about 3.7 percent per year, which is more than double the current rate of inflation. It already appears as though an entire generation is entering the workforce with crushing amounts of debt, currently totaling about $1 trillion, and it is clear that something needs to be done to prevent this trend from continuing.

There is clear evidence that the biggest reason for these growing prices is expansion of university services and amenities. Implementation of co-curricular activities and extraneous services such as additional dining options, recreation facilities, and classroom resources in order to stay competitive and attractive to the best students are driving up the prices, not to mention the extra people hired to maintain all of it. For example, building a new gym or recreation facility for student use may be convenient and useful, but there are other expenses to consider besides the initial cost of building, development, and equipment. The addition of a new facility will likely result in hiring more people to maintain it, not to mention the cost of running an additional gym during the day.

We can try to remodel our higher education system and try to offer more scholarships for students, but the fact is, unless universities start taking it upon themselves to lower tuition, this goal is impossible. Lowering tuition is essentially an internal issue that should be dealt with by each individual school in a way that works best for them. This gives schools complete authority in their practices and allows them to have control over the the want to take in order to decrease tuition rates while still maintaining appeal to prospective students.

As previously mentioned, colleges spend an enormous amount of money on extraneous services to attract the best students, when many of these costs could be cut to make college more affordable for all students. Many colleges could take steps to cut nonessential costs in order to make it possible for colleges to lower the extremely high costs of tuition.

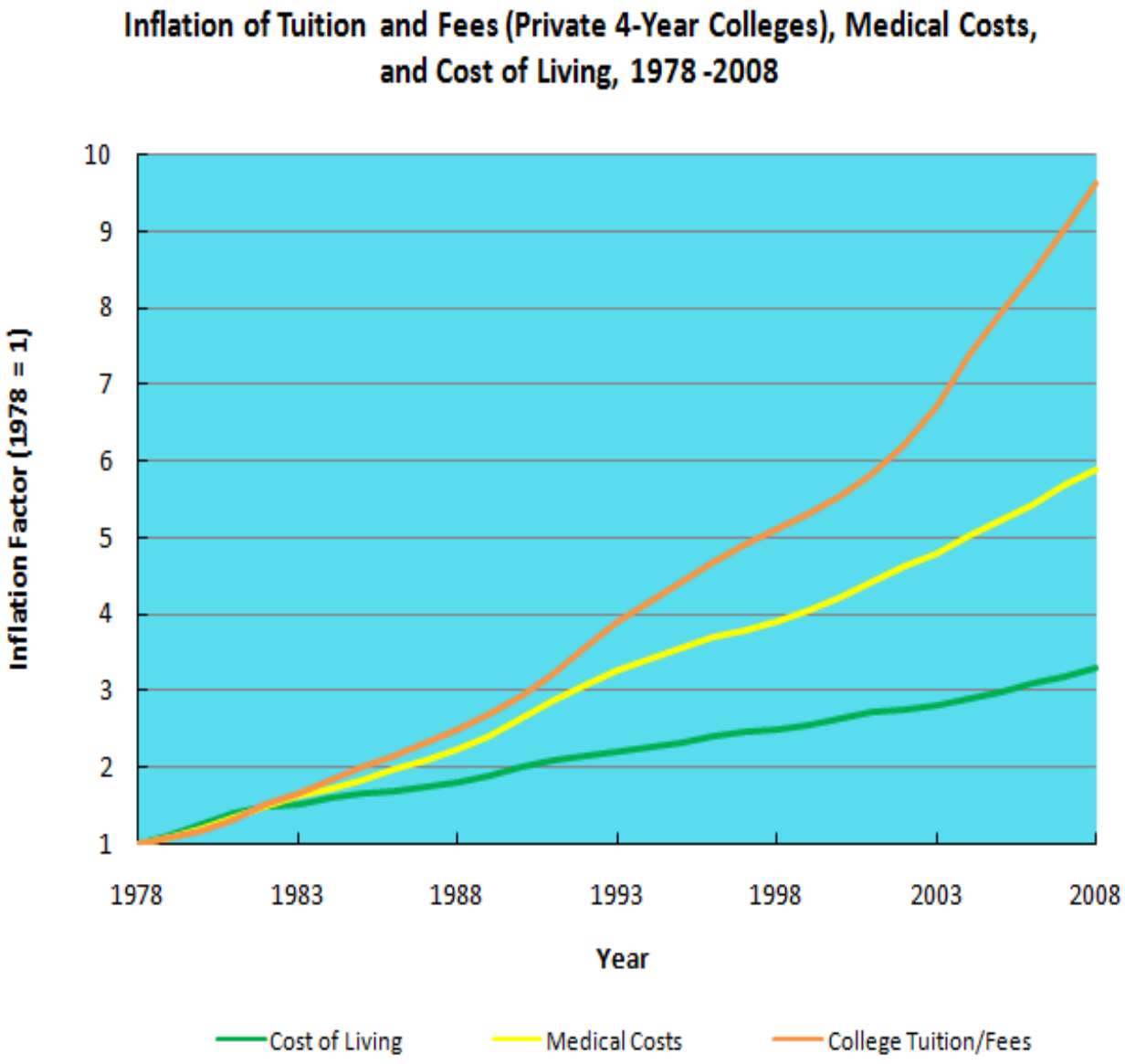
One way for colleges to reduce nonessential costs is to reduce the amount of administrative staff. From 1998 to 2008, private colleges in America have increased spending on instructive staff by 22% but have increased spending on administrative staff by 36%. In 2007 administrative staff also accounted for 26.1% of the total workforce in colleges. Therefore, universities could cut costs by reducing the extraneous administrative staff.

Furthermore, by utilizing modern technology college could reduce many costs to both the students and the colleges themselves. For example colleges could reduce the cost of maintaining a library by shifting much of their library to onlines resources. Given that most students do their research online while an abundance of books sit in the library untouched, colleges could save a considerable amount of money by digitizing a library, which on average costs a college $1.72 million per year to maintain.

Finally, while giant college athletic programs are often touted as big money makers for colleges, only 19 of 119 Division I Football programs reported positive revenues in 2006. One solution to reducing the great expense of college athletics is to shift focus to club sports rather than varsity sports. Club sports receive only a moderate amount of money from colleges and could save colleges a considerable amount of money.

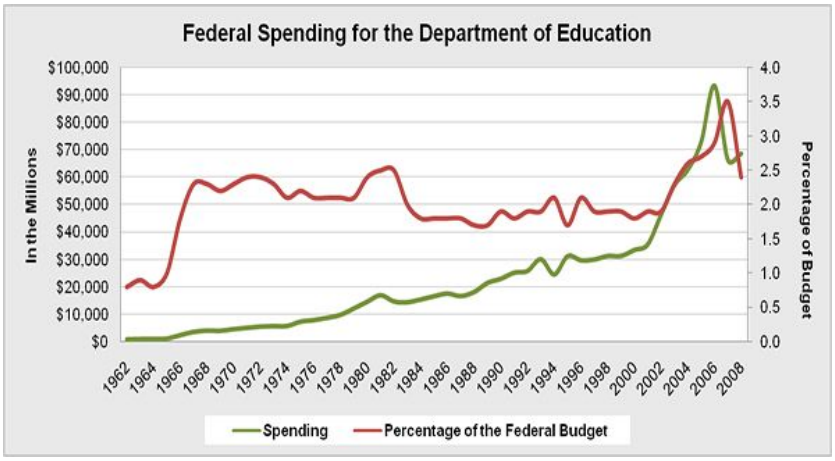
Obviously there are a number of costs associated with proposed solutions to the increasingly high costs of education. Cutting administrative staff would cause a number of workers to lose their jobs. Moving the library to a digital setting would also cause workers to lose their jobs as well as affect students, who prefer do research in actual books.

Obviously there are a number of costs associated with proposed solutions to the increasingly high costs of education. Cutting administrative staff would cause a number of workers to lose their jobs. Moving the library to a digital setting would also cause workers to lose their jobs as well as affect students, who prefer do research in actual books. Furthermore, it would eliminate a popular study space for many students. And reducing spending on college athletics would affect athletes, fans, and coaches. However, these changes and tradeoffs could result in a lower cost of higher education for all students.



Approach 3: The Government Needs to Help

When it comes to defraying the costs of higher education, the government comes in as a major player. Currently, the government has a large role in public education, as school from kindergarten through grade 12 already is covered by government spending. This spending is mostly done by state and local government agencies though, with federal spending only amounting to about 10% in this area, where a state dedicates around 30% of its budget to education. However, over recent years this percentage has been cut, despite there being more students in the education system.



However, is it the role of the government on all levels to cover a higher level of education for the public? While having the government help cover more costs of higher education could lead to higher taxes, the overall benefit could make any extra funding put toward education worthwhile. With the government covering costs of a college education, a higher percentage of the public will hold an advanced degree as those held back by the price tag of a degree will now be able to achieve that goal. With a larger part of the general public having a college education, more people will become qualified for more advanced employment positions. Since a better job comes with a higher income, people will pay a higher income tax than they would have had they not gone to college at all. This allows the government to receive tax money they otherwise would have not had, essentially helping to pay off the original investment made on offering a reduced price college tuition. With federal, state, and local agencies all playing a part, the government can take on its role in providing a higher education for all.

One plan recently proposed by President Obama is one that calls for free community college tuition. This plan is a start having a better educated and trained public. Should the plan pass in all fifty states, around nine million students per year will be affected, with each student saving an average of $4,000 a year on tuition costs. The President has set some academic requirements to help push students to make the most of this opportunity. Now while the students will get the benefits of a free tuition, the burden of the system will be carried by the taxpayers. While some taxpayers may not agree to paying more in order to educate other people, over time all people will be able to feel the benefits of free education in the form of a higher overall society.

Negative Effects

Naturally, there are always going to be side effect to government policy, especially when dealing with issues on such a grand scale. Many complications arise when the government steps in to solve issues, as they no longer affect just those involved, but instead extend to all citizens. This is especially the case when it comes to higher education, since there are so many factors at play.

One of the best examples of a government attempting to implement policies to help people pay for higher education and it completely backfiring comes from Germany. The German government made the decision to go tuition free as a result of the dominant belief that tuition fees are socially unjust and they discourage young people without a tradition of higher education in their families. Unfortunately, Germany's plans to help the people didn't work out as well as planned.

According to the OECD, Germany has the second highest income tax burden of all of OECD's 34 countries, and according to Forbes writer Christopher Denhart, due to the additional state subsidies to keep higher education free, "the 2012 tax burden figure of 49.8 percent of income is sure to increase". Clearly, there has been a serious impact to taxes as a result of the subsidies that are necessary to make education free and the tradeoff seems to be a steep one. A tax burden that is almost half of people's income is scary high, and it seems that everyone is facing financial hardship instead of just those seeking higher education.

It's clear with taxes that free tuition isn't really free. Denhart continues to discuss one of the biggest problems with free education. Increasing taxes in order to subsidies education leaves the problem of the highest paid and most educated Germans leaving the country in search of a place where they can hang onto a greater percentage of their salaries. As Denhart explains, "This will then reduce the tax cache and start to decrease the deficit more than the added tax revenues from a more professional society will add to them." On top of the economic problems that face a country with its most educated and wealthy people leaving, there is the problem of people using Germany's system and then giving the benefits of having an educated population to another country.

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