Capping Prices or Rewarding Outcomes: Two Different Ideas for Reining In Unaffordable Graduate Student Debt

THE CENTURY FOUNDATION

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Overview of proposal:

While most of the national discussion about student loan debt focuses on the challenges of paying for undergraduate education, some of the most shocking stories of unaffordable debts involve graduate school programs. In fact, while fewer than 15 percent of Americans have graduate degrees, about *half* of outstanding student loan debt is from graduate education.[1] A major contributing factor is that, unlike undergraduate loans, federal graduate loans have no set limit; whatever amount a university charges in tuition, the federal student loan program will cover, plus additional funds to support other student costs.

Last year, policy experts from across the political spectrum came together to examine the issue of graduate student debt, and emerged with a shared set of five policy principles for considering reforms: (1) set reasonable loan limits; (2) award grant aid to students and institutions to address equity and social good considerations; (3) ensure sufficient value and return on investment for students and taxpayers; (4) enhance the regulatory structure and consumer protections for private lending; and (5) improve data disclosure and transparency. To continue the discussion, experts at several organizations have separately developed specific policy proposals for reforming federal graduate student loan debt, using the five policy pillars as guidelines for explaining their plans.[2]

Here The Century Foundation's Tiara Moultrie and Robert Shireman offer two separate ideas for reining in the problems of federal graduate student loan debt, each taking a very different approach. A proposal to reward colleges with Upward Mobility Points for achieving socially important goals would move away from the traditional voucher approach to student aid—which sets grant and loan amounts per student—and instead place greater responsibility on colleges to determine how best to use the federal aid the college has earned. By recognizing the college as the key mover in promoting student access and success, this proposal is a fundamentally different approach than Title IV aid, which places responsibility—and blame—on students.

The other proposal would maintain the current student-by-student approach to federal aid. But rather than setting fixed across-the-board loan limits, which is Congress's typical, simplistic approach, the proposal is to use tuition price caps to prevent abuses by universities.

The two proposals are described in detail below.

Idea 1: Upward Mobility Points That Reward Colleges For Doing Good, So They Can Do More

The concept behind our Upward Mobility Point (UMP) proposal is that colleges should receive federal funding increases based on achieving socially important goals, rather than just by charging higher tuition or enrolling more students. Our proposal would implement this concept with regard to federal student lending. Currently, colleges can offer students two types of federal student loans for graduate study: the Stafford loan program, which has per-student loan limits and somewhat lower costs to students, and the Grad PLUS program, which has no set limit, costs somewhat more, and is denied to some students with credit risks. Students typically borrow first from the Stafford program, and then use the Grad PLUS program for greater needs, particularly when the graduate programs cost more. We would propose phasing out the Grad PLUS program and replacing it with this new UMP concept, which uses the federal budget savings from eliminating the Grad PLUS program to provide supplemental grant and loan funds in an outcome-based manner.[3]

With this plan, colleges would earn Upward Mobility Points based on their institution's demonstrated commitment to enrolling and preparing for graduate study students from historically marginalized populations. The colleges would then convert their accumulated points into funding for the college to use as institutional aid and other supports for current graduate students in lieu of using Grad PLUS funds. Below we suggest one such approach to distributing points for discussion and analysis, with the understanding that consideration in Congress would likely lead to a somewhat different system for how points would be allocated.

Earning Points

Based on information from the most recent year for which data are available, institutions could be awarded UMPs as follows:

1. ***Low-income students:*** 2,000 UMPs for each upper division full-time equivalent student (FTE) eligible for Pell Grants;
2. ***Under-represented minority students:*** 1,000 UMPs for each upper division student (FTE) who identifies as Black, Hispanic, Native American, Native Hawaiian, or Pacific Islander;
3. **Graduation:** 3,000 UMPs for each bachelor's degree awarded to a student eligible for Pell Grants and/or who identifies as Black, Hispanic, Native American, Native Hawaiian or Pacific Islander (unduplicated count);
4. ***Low-debt for the historically marginalized:*** an additional 1,000 UMPs for each student identified in (c) who graduates with less than $20,000 in student loan debt;
5. ***Low-income graduate enrollment:*** 2,000 UMPs for each graduate student (FTE) enrolled at the institution who had previously received a Pell Grant; and
6. ***Earnings bonus:*** starting in the third year of the program, up to an additional 50 percent UMPs, according to a formula determined by the U.S. Secretary of Education to reward increases in earnings and other measures of upward mobility.

Using Points

UMPs can be redeemed and converted one-to-one to dollars to support student success, or UMPs can be converted into loans at a higher ratio, perhaps $3 in loans for every one UMP.

- UMPs converted to student support can be used for financial aid grants to graduate students who were Pell Grant recipients as undergraduates, or may be used to finance support programs aimed at disadvantaged undergraduate or graduate students. These programs would be designed to support student success in preparing for or completing graduate education, modeled perhaps on the federal McNair program.[4] Institutions may prefer to use points for grants rather than loans to keep debt levels low so that they can earn more points, or to support undergraduates (particularly at an institution that does not have graduate programs).

- UMPs converted to graduate Stafford loans ($3 in additional Stafford for each one UMP) may be used for graduate students at the institution, or for students at other institutions with the agreement of the receiving institution. (For example, pursuant to an arrangement where students at a baccalaureate institution enroll in medical school at another institution.)[5]
- UMPs expire after the third academic year after they are earned/allocated.

The joint report for this project on graduate student debt issued last year recommended that any reform address five pillars.[6] Below is a description of how the UMP proposal addresses each of the first three pillars. Our proposals to address pillars four and five are the same for both proposals, and are described further below.

Pillar 1: Set Reasonable Loan Limits

The UMP proposal replaces the unlimited Grad PLUS program with a system that incentivizes institutions to lower their students' reliance on supplemental loans to finance their graduate education. The total amount an institution receives is based on outcomes that prevent its students from having unaffordable student debt. Because colleges have a limited amount of loans they can use, and because they have the option of using the funds as grants or student support, the colleges have a strong incentive to be judicious in the use of the supplemental loans: they earn more points if students are successful, including when debt burdens are kept relatively low.

Pillar Two: Award Grant Aid to Students and Institutions to Address Equity and Social Good Considerations

Colleges earn points—convertible to grants and loans—by pursuing equity goals that are important to the federal aid program: enrolling low-income students and students from historically underrepresented backgrounds, ensuring that those students graduate, and helping them to keep debt levels low.

A specific comparison of two universities demonstrates the equity benefits of the UMP approach. Currently, the University of Mississippi receives far more in graduate aid than does its sister historically black college and university (HBCU) institution, Jackson State University, because the former enrolls far more students and charges higher tuition. Under the point allocation we outline above, our estimate is that Jackson State would earn an amount exceeding the University of Mississippi's total (8.5 and 6.7 million points, respectively). That's because even though Jackson State's enrollment is less than a third that of the University of Mississippi, the former enrolls more low-income and minority students. Meanwhile, aiming to the future, the point allocation approach provides a strong incentive to the University of Mississippi to do more to provide upward mobility to marginalized populations. With 8.5 million points, Jackson State could commit more than $4 million to a student support initiative in a single year, while still having $12 million for supplemental loans to graduate students.

Pillar Three: Ensure Sufficient Value and Return on Investment for Students and Taxpayers

The UMP proposal is specifically designed to align federal aid with upward mobility outcomes: enrolling and graduating students from marginalized backgrounds, providing them with graduate study opportunities, and keeping student loan debt manageable. Further, by helping students to achieve higher salaries after graduation, institutions earn additional aid.

Idea 2: Flexible Price Caps to Stop Colleges From Overcharging for Graduate Programs

Policy experts have long been concerned about the potential for student financial aid programs to cause inflation in tuition prices. The potential for such price gouging is greater when the pot of money available to a college is unlimited, and there is no fixed cap on the size of the loans that the college can offer to a student. That is exactly the situation with the Grad PLUS program, and new research has found evidence of a causal effect linking higher tuition with the availability of federal loans.[7]

Loan limits, as they exist for federal undergraduate loans, help to reduce the potential inflationary impact of the aid. But they do not ensure that a program's tuition price is fair and appropriate. And at the graduate level, where the cost of providing a program can vary much more across colleges and types of degrees, loan limits are an even more awkward solution, with an arbitrariness that contributed to the creation of the Grad PLUS program.

The Flexible Price Caps proposal aims to bring down graduate tuition by allowing tuition to be only as high as can be justified by the actual cost of providing the education, the earnings of program graduates, or the amount private payers are willing to pay. Federal government savings from the reduced lending would be distributed to institutions based on their demonstrated commitment to historically marginalized populations. The aid could be used in a variety of ways, such as funding for the McNair Scholars Program, or other pipeline initiatives or dedicated teaching-assistantships and research assistantships.[8]

Data on education spending and earnings is frequently not available on a major-by-major basis. Therefore, for the purposes of tuition price justification, the college's accounting would be on a division basis.[9] Further, the tuition justification would be a required appendix to the college's audited financial statement (in the same way that the 90–10 program is monitored); colleges would not need to submit vast quantities of data to the U.S. Department of Education. Our recommendation is that a college division would need to meet one of these tuition limit measures:

- **Education spending**. Average per-student spending on instruction and student support in the division (based on figures from the prior or prior-prior year) equals not less than 80 percent of the full tuition charge.[10]
- **Historical earnings**. Prior graduates earn enough on average to meet identified thresholds, and enrollment in the division is no more than double the number of students in the cohort for which earnings are measured.[11]
- **Non-federal price validation**. A substantial portion (say, one-third) of students in the division are able to pay tuition without taking on debt.[12]

Again, a college would need to satisfy only one of the criteria. That said, colleges that meet two or three would have a promotional advantage in advertising their programs.

The measures are based on historical data, reducing the potential for overcharges. But if an audit did reveal an issue, overcharges would lead to refunds (to students and/or taxpayers, as appropriate) and possibly a fine, not to a loss of eligibility for aid.

The joint report on graduate student debt recommended that any reform address five pillars. Below is a description of how the Flexible Price Caps proposal addresses each of the first three pillars. Our proposals to address pillars four and five are the same for both proposals, and are described further below.

Pillar 1: Set Reasonable Loan Limits

Currently, graduate loan levels are unlimited, since colleges can set any level of tuition and it will be covered by the combination of Stafford loans and Grad PLUS loans. By capping tuition to justifiable levels, loan amounts are effectively limited.

Pillar Two: Award Grant Aid to Students and Institutions to Address Equity and Social Good Considerations

The federal budget savings from reduced graduate lending resulting from Flexible Price Caps could be distributed to colleges based on demonstrated commitment to historically marginalized populations. (The UMP proposal above provides a potential starting point.)

Pillar Three: Ensure Sufficient Value and Return on Investment for Students and Taxpayers

The Flexible Price Caps proposal explicitly requires institutions to demonstrate value in at least one of three ways: a commitment to instruction and student support, strong earnings outcomes, or financial support from employers and private scholarship programs. Institutions gain flexibility in pricing by seeking to perform well in all of the measures.

Our Proposals to Address Private Lending and Data

For both the Upward Mobility Points and the Flexible Price Caps proposals, we recommend additional policies to address pillars four and five of the joint report.

Pillar Four: Enhance the Regulatory Structure and Consumer Protections for Private Lending

The introduction of borrowing limits in the Graduate PLUS program may lead some students to pursue private education loans to cover any unmet need. Thus, guardrails on private borrowing should be introduced as these borrowers are not afforded the same repayment protections available in the federal loan system.

Expanding Opportunities to Discharge Student Loans in Bankruptcy. Private student loan borrowers who file for bankruptcy and successfully prove that repayment would pose an "undue hardship" can have their loans discharged in bankruptcy. In 2023, the U.S. Department of Justice in collaboration with the U.S. Department of Education announced a new process for handling these cases intended to relieve the burden these borrowers face.[13] Hundreds of cases were filed following these changes, and many of the resolved cases resulted in discharge. However, the process and the administration of discharge itself may need additional reforms. While the number of student borrowers who now know their loans can be discharged has grown and the process is less arduous, borrowers still face several structural barriers to relief.

Filing for Chapter 7 or Chapter 13 bankruptcy is not only difficult, it's expensive. The indebted borrower must hire a consumer bankruptcy attorney and hope that their filing isn't dismissed in court. Any loan discharge cannot be "received" by the borrower until their bankruptcy proceedings have concluded. Black bankruptcy filers are more likely to have their cases dismissed without any debt relief than any other racial or ethnic group, leaving them with court costs and the original debt burden.[14] Even if a borrower's case isn't dismissed, they may face drawn-out litigation, which can include extensive discovery.[15] Unfortunately, even borrowers who receive relief may not be free of continued attempts to collect these discharged loans.[16] To make this process truly equitable and remove barriers to borrowers, several issues must be addressed beginning with the way private loans are advertised. Advertisements and contracts should make it clear that student loans can be discharged in bankruptcy. Additionally, the streamlined process should not be variable, and borrowers and attorneys should have some notion about the discharge timeline. Lastly, borrowers who receive discharge through bankruptcy should not receive continued collection actions from their servicer or collection agencies regarding the discharged loans.

Discharge of Private Education Loans for Disabled Borrowers. Private student loan lenders are not legally required to cancel or discharge the balances of disabled borrowers.[17] There are no federal requirements that private lenders discharge the private student loans of borrowers who experience total and permanent disability that impedes their ability to earn income. In 2021, House Democrats first introduced the Private Loan Disability Discharge Act, which would offer protection for obligors and cosigners in the case of death and permanent disability.[18] The bill further specifies that the private education loan holder may not attempt to collect on the outstanding debt or monitor the student borrower's disability status following the discharge. Congress should enact legislation that provides that private student loan borrowers deemed totally and permanently disabled by a federal agency, such as the U.S. Department of Veteran Affairs or Social Security Administration, should be able to submit this documentation to their servicer in lieu of an arduous application process and receive notice of receipt quickly. The legislation should provide that during the period when a borrower's discharge is pending, they should be made aware in writing whether they've been placed in forbearance, whether interest accrues and capitalizes during this period and how missed payments can be "made up" if their request for discharge is ultimately rejected.

Pillar Five: Improve Data Disclosure and Transparency

Federal data reporting and collection should include tuition and net tuition charges for graduate programs. Currently, the Integrated Postsecondary Education Data System (IPEDS) at the National Center for Education Statistics only collects tuition for the largest programs. Further, reporting should be revised to capture differences in revenue and expenses related to online and on-campus programs. Updating the reporting requirements in the annual finance survey from IPEDS will provide more nuanced data on institutional spending and help inform federal and state accountability metrics. Spending on advertising, recruiting, and other pre-enrollment activities should be reported as a discrete category, distinct from any other spending on enrolled students. As part of annual financial reporting, colleges and universities should collect disaggregated expenditure information from their contractors, like online program management companies (OPMs) that are engaged in advertising and recruiting.

Notes

[1]"Census Bureau Releases New Educational Attainment Data," U.S. Census Bureau, February 16, 2023

https://www.census.gov/newsroom/press-releases/2023/educational-attainment-data.html; Tomás Monarrez and Jordan Matsudaira, "Trends in Federal Student Loans for Graduate School," U.S. Department of Education, August 2023 https://sites. ed.gov/ous/files/2023/08/OCE_GraduateDebtReport202308.pdf.

[2] Beth Akers et al., "A Framework for Reforming Federal Graduate Student Aid Policy," American Enterprise Institute, Education Counsel, and Century Foundation, December 8, 2023, https://www.aei.org/research-products/report/a-framework-for-reforming-federal-graduate-student-aid-policy.

[3] The phase-out would allow already-enrolled students to finish programs using the existing Grad PLUS approach.

[4]TRIO Ronald E. McNair Postbaccalaureate Achievement Program," U.S. Department of Education, last modified October 11, 2023, https://www.ed.gov/grants-and-programs/grants-higher-education/trio/trio--ronald-e-mcnair-postbaccalaureate-achievement-program--home-page.

[5] Like in the former Perkins loan program, the institution decides which students and programs are offered loans. Unlike

the Perkins program, the loan funds would be managed as Federal Direct Loans (not a separate revolving fund managed by the school).

[6] Beth Akers et al., “A Framework for Reforming Federal Graduate Student Aid Policy,” American Enterprise Institute, Education Counsel, and Century Foundation, December 8, 2023, https://www.aei.org/research-products/report/a-framework-for-reforming-federal-graduate-student-aid-policy.

[7]Sandra Black, Lesley Turner and Jeffrey Denning, “PLUS or Minus? The Effect of Graduate School Loans on Access, Attainment, and Prices,” National Bureau of Economic Research, May 2023, http://www.nber.org/papers/w31291.

[8] McNair Scholars Program, accessed November 13, 2024, https://mcnairscholars.com/.

[9] The thresholds would be determined by the secretary of education. A division is the program(s) in which a unique tuition charge and/or admission standard is applied. For example, a business school might have a ground MBA program that operates using different tuition or admissions standards than its online MBA program.

[10] Student support should include only post-enrollment expenses, excluding any advertising or recruiting expenses.

[11]This limit on the size of the program is to prevent a provider that cannot justify its tuition on either of the other two measures from dramatically expanding its enrollment based on old data.

[12]Since current-year borrowing is not knowable, implementation would be based on a prior cohort; that is, the tuition charge is the same (or inflation adjusted) and total enrollment in the division can be no more than three times the number of no-debt students enrolled in the prior cohort.

[13]“Justice Department and Department of Education Announce Successful First Year of New Student-Loan Bankruptcy Discharge Process,” U.S. Department of Justice, Office of Public Affairs, November 16, 2023, https://www.justice.gov/opa/pr/justice-department-and-department-education-announce-successful-first-year-new-student-loan.

[14] Betsy Vereckey, “Black bankruptcy filers more likely to be denied debt relief,” MIT Sloan School of Management, July 31, 2024, https://mitsloan.mit.edu/ideas-made-to-matter/black-bankruptcy-filers-more-likely-to-be-denied-debt-relief.

[15]Katherine Knott, "Discharging Student Loans in Bankruptcy: A Shot in the Dark?," Inside Higher Ed, November 27, 2023, https://www.insidehighered.com/news/government/student-aid-policy/2023/11/27/discharging-student-loans-bankruptcy-shot-dark.

[16] “CFPB Heightens Scrutiny of Unlawful Collection of Payments on Discharged Student Loans,” Consumer Financial Protections Bureau, March 16, 2023, CFPB Heightens Scrutiny of Unlawful Collection of Payments on Discharged Student Loans | Consumer Financial Protection Bureau.

[17]“What happens to my student loans if I die or become disabled?,” Consumer Financial Protections Bureau, April 15, 2024, https://www.consumerfinance.gov/ask-cfpb/what-happens-to-my-student-loans-if-i-die-or-become-disabled-en-595/.

[18]Adam Minsky, "Democrats Introduce Bill to Discharge Private Student Loans for Borrowers and Cosigners Due to Disability," Forbes, April 20, 2021, https://www.forbes.com/sites/adamminsky/2021/04/20/democrats-introduce-bill-to-discharge-private-student-loans-for-borrowers-and-cosigners-due-to-disability/.