

Business In The Beltway

Calculating College Costs

Janet Novack, 07.05.06, 6:00 AM ET

WASHINGTON, D.C. -The frantic scramble by families to consolidate college loans before interest rates jumped on July 1 is over. But the financial aid follies continue.

As a little-noted draft report from the U.S. Secretary of Education's Commission on the Future of Higher Education concludes, "The nation's system of higher-education finance is increasingly dysfunctional, inefficient and inadequate."

The report, released for comment late last month, calls for better cost control by colleges, more federal money for the poorest students and a complete overhaul of an aid system that is "convoluted, complex and counterproductive." By the commission's count, there are 17 different federal programs that provide either direct financial aid or tax benefits for college to the general population. (That number doesn't include federal programs for special groups, such as veterans, nurses-in-training and Native Americans, or any state or private aid offerings.)

The main problem, of course, is that college tuition has risen much faster than family income, and financial aid hasn't gone up enough to fill that gap. According to the College Board's latest Trends in College Pricing study, over the past decade the average inflation-adjusted published price of a private four year college (including room and board) has risen 32% to \$29,026, while the net price an average family pays each year after all grants, discounts and tax benefits--has risen 21% to \$19,400. During the same period, the average published price for a four-year state college has climbed 42% to \$12,127, and the average net price to families has gone up 29% to \$8,800. By contrast, in the decade ended in 2004, the median inflation-adjusted income for families headed by those aged 45 to 54 rose a paltry 3% to \$61,111, the U.S. Census Bureau reports.

The confusing financial aid system makes this bad situation worse, since it's nearly impossible for normal folks to figure out in advance what their out-of-pocket costs for any given school will be. That creates lots of angst and frustration for middle-class families. But it has an even bigger impact on lower-income families who may decide not to send their kids to college because they don't realize the assistance that's out there, argues Susan M. Dynarski, a Harvard associate professor of public policy. Dynarski and Harvard doctoral candidate Judith E. Scott-Clayton recently co-authored a new paper on the costs of complexity in the college financial aid system. "For those on the margin of college entry, concrete information about aid simply arrives too late," the researchers say.

How complicated is it? Families applying for federal grants or subsidized loans must complete the 128-question, Free Application for Federal Student Aid form. The 1040EZ and 1040A income tax forms filed by two-thirds of all households contain just 37 and 83 questions, respectively, Dynarski points out. Nor has the educational establishment owned up to the difficulty of all this paperwork. While the Internal Revenue Service estimates the 1040EZ takes eight hours and the 1040A 13 hours to complete, the Department of Education improbably claims FAFSA takes only an hour, Dynarski notes.

Tax benefits, which make up an increasing portion of federal assistance for higher education, add yet another layer of complexity. For 2005, the IRS's 82-page Publication 970, Tax Benefits for Education, lists 11 tax breaks for qualified higher education expenses, including the Hope and Lifetime learning credits, the tuition deduction and the deduction for student loan interest. Six of these benefits phased out for folks with higher incomes at ten different income levels (varying by break and filing status), using four different definitions of income. (Note: It's still unclear whether one key break--a deduction for up to \$4,000 of college tuition, will be allowed for 2006; it expired on Dec. 31 and so far hasn't been reauthorized, casting further uncertainty on family budgets.)

There's more: Some of these tax benefits affect a family's eligibility for other aid, as measured by its "expected family contribution"--which is calculated from the FAFSA form. And many private colleges, when doling out their own aid money, ask additional questions and use their own formulas. (Example: Some count a family's home equity as parental assets available to pay for college, whereas the federal formula ignores home equity.)

Put this all together, and it makes the dreaded federal Alternative Minimum Tax look simple.

So will the commission's report, when it comes out in final form this fall, make any difference? Will federal need-based financial aid for college be "significantly increased" as the commission proposes? Will, as the draft report suggests, the FAFSA form be eliminated in favor of using tax returns combined with a small, post-card-sized application form to evaluate need?

Don't bet your college savings on it.