Dollars Rule Everything Around Me:

College-Bound Students' Views on Paying for College

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with Michelle Croft, J.D./Ph.D. and Raeal Moore, Ph.D.

ACT® Center for Equity in Learning

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SUMMARY

Key findings include: two-thirds of respondents were eligible for Pell Grants, averse to any college-based debt, or paying for their postsecondary education themselves. Other national estimates fail to account for all three of these traits, and thus undercount both the number of students struggling with financial aid decisions and the reasons why they struggle.

Students did not understand basic information about the student financial aid and repayment processes, which may limit their abilities to access aid. Debt-averse students may need additional information about the value of undertaking some (but not too much) debt, as well as about the effects of different in types of debt and repayment options on students' ultimate debt load and ease of repayment.

Lastly, many students lack the most up-to-date and personalized debt-related information necessary to making college enrollment and student financial aid decisions. One way to address this lack is for colleges and universities that draw from the same feeder high schools and school districts to work with high school counselors and nonprofit college access organizations to provide greater consistency and clarity, and more detail about actual college costs, in the information that is shared with students and their families.

SO WHAT?

The level of student loan debt has doubled in less than a decade and more than one in ten borrowers are struggling to make their student loan payments. With such stakes, it is important to know how prospective college students are planning to finance their college education. In April 2018, roughly 1,200 high school juniors and seniors who registered to take the ACT® test responded to a short survey about their views on paying for college and knowledge about repayment options.

NOW WHAT?

It is vitally important that high schools and colleges do a better job of clearly explaining all options related to available student financial aid—preferably non-loan aid—and the long-term consequences of student loan debt. Providing students with more individualized, information is a necessary step toward the goal of improving student access to financial aid and thus their access to postsecondary education and ultimately to career opportunities.

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Introduction

The young adults of today will be the most educated generation this country has ever produced. According to the U.S. Department of Education, the national high school graduation rate reached an all-time high of 85 percent in 2017, and two-thirds of high school graduates between 16 to 24 years old enrolled immediately in college.[1] Unfortunately, the percentage of those enrolling immediately in college has barely budged since 2000. Some contribute the lack of growth to the Great Recession,[2] but this once-in-a-lifetime event has only magnified a deeper concern: *student loan debt*.

In the aggregate, student loan debt now tops $1.5 trillion.[3] The average borrower has accumulated nearly $40,000 in student loan debt, eclipsing credit card debt, and now only trails home mortgage loans as the largest type of personal debt.[4] More worrying is that the level of student loan debt has doubled in less than a decade and some students are struggling to make debt payments—11 percent of student loans are either delinquent or in default.[5] As noted by financial analysts at Bloomberg, student loan debt is "raising fiscal risks" across the economy,[6] a prospect made even more dire if and when the economy slows.

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While there remains strong consensus among economists that the remunerative benefits of a college degree over a lifetime outweigh the costs,[7,8] the sheer size of these debt numbers and the uncertainty surrounding future job prospects are causing certain families and young adults[9] to rethink and readjust their post–high school options and how they finance their college choices.[10] Perhaps the most complex and ambiguous aspect of the college search process is understanding the short- and long-term implications of student financial aid on decisions about postsecondary enrollment made by students and families.

Understanding Student Financial Aid

Student financial aid—a critical necessity for the majority of students planning to attend college—can take the form of grants, scholarships, work-based aid, or loans. The persistent criticism surrounding the complexity in accessing financial aid is warranted and does not need to be repeated here. Instead we seek to focus on failings further downstream. To fully understand the student financial aid system requires apprehending the panoply of loan repayment tools and terms, such as income-based, consolidation, forgiveness, delinquency, or default.

Comprehensive knowledge about **(1) what kinds of aid are available**, **(2) how to go about applying for them**, and **(3) the consequences of not repaying loan debt in a timely manner** varies greatly. Yet it is often the students most in need of aid who are the least equipped with this knowledge. According to economists at Columbia University, "[m]isperceptions about college costs and financial aid are widespread and are most prevalent among students from the lowest income backgrounds."[11] Understanding these three aspects of the student financial aid process, from applying for aid to managing repayment options, is vitally important, and they are the motivation behind this study.

To investigate how much college-bound high school students know about the student financial aid process, we analyzed survey data for approximately 1,200 students in grades 11 and 12 who registered to take the ACT® Test in April 2018.[12] Recognizing that students' economic background may drive the results, students were disaggregated into four categories, which will be described in more detail below.

Defining the Sample

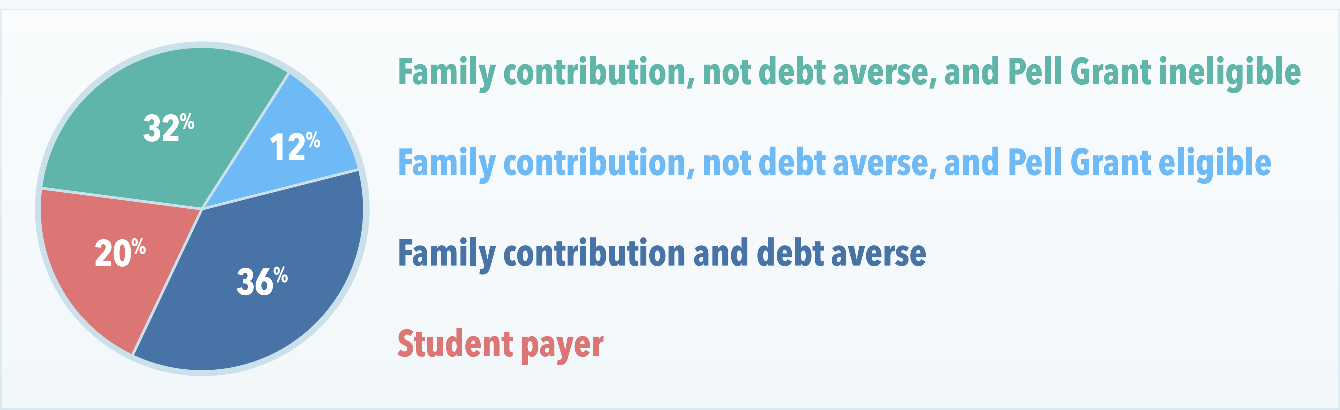
A more nuanced definition

Most financial aid systems are designed to reduce the cost of college for low-income families.[13] The most prominent example of this is the federal Pell Grant program, which helped seven million low-income students pay for college in the 2017–18 academic year.[14] For our study, students who self-reported family income $60,000 or less are considered Pell Grant eligible.[15] This is a common designation in student financial aid studies, but it misses some key distinctions.

A critical consideration often missed in the determination of financial aid eligibility is the families' sensitivity to college-based debt.[16] We tend to think that only low-income families are sensitive to college prices and student loan debt. However, our analysis shows that even students from higher-income families[17] are concerned about the price of college and that, regardless of family income, accumulating college-based debt creates a stronger incentive to seek out financial aid opportunities. These two characteristics—family income and aversion to college-based debt—are accounted for in our analysis.

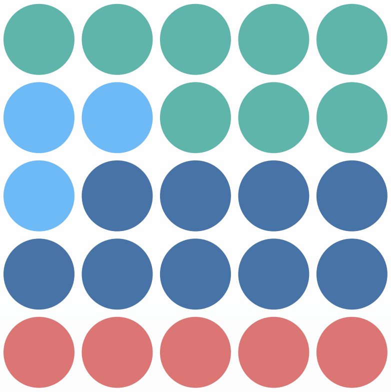
Another nuance applied to this analysis involves the primary payer of students' college education. Four of five students indicated that their family will be contributing—in part or in full—to their college expenses, leaving the remaining 20 percent to pay for college on their own. If our results are representative of all college-bound high school graduates in the nation, there are roughly 700,000 students (or 47 percent of all first-year college students 18 years old and younger) who expect to shoulder all the costs of attending postsecondary education.[18]

Regardless of their economic background or aversion to college-based debt, it is especially important for these self-funded students to access all financial aid available to them. In short, our findings define and disaggregate high school students based on a combination of their economic background, aversion to college-based debt, and primary party responsible for paying. Taken together, the analysis splits survey respondents into four categories (percentage of respondents shown below):



A brief description of these four categories is provided in the next section.

Although the categories used for the analysis are mutually exclusive, there is overlap in student characteristics. The diagram below illustrates the overlap for Pell Grant eligibility and debt aversion.



1 Family contribution, not debt averse, and Pell Grant ineligible (32%)

2 Family contribution, not debt averse, and Pell Grant eligible (12%)

3 Family contribution and debt averse (36%)
- 33% Pell Grant eligible

4 Student payer (20%)
- 20% Pell Grant ineligible and debt averse
- 25% Pell Grant eligible and debt averse
- 30% Pell Grant eligible and not debt averse

Describing the students of interest

As shown in **Table 1** below, there are significant differences between these four groups by race/ethnicity and first-generation status. For example, one quarter of black students indicated that they are paying for college on their own and more than two in five are having to choose the right college for them that also will not saddle them with college-based debt. More strikingly, two in three first-generation respondents are either paying for college on their own or are choosing a college that will leave them with little to no college-based debt. A handful of colleges have pledged to recruit more first-generation students, but based on the responses to our survey, that message is either not reaching its intended audience or the institutions that first-generation students are looking to attend are not making such assurances early and often enough to be believed.[19]

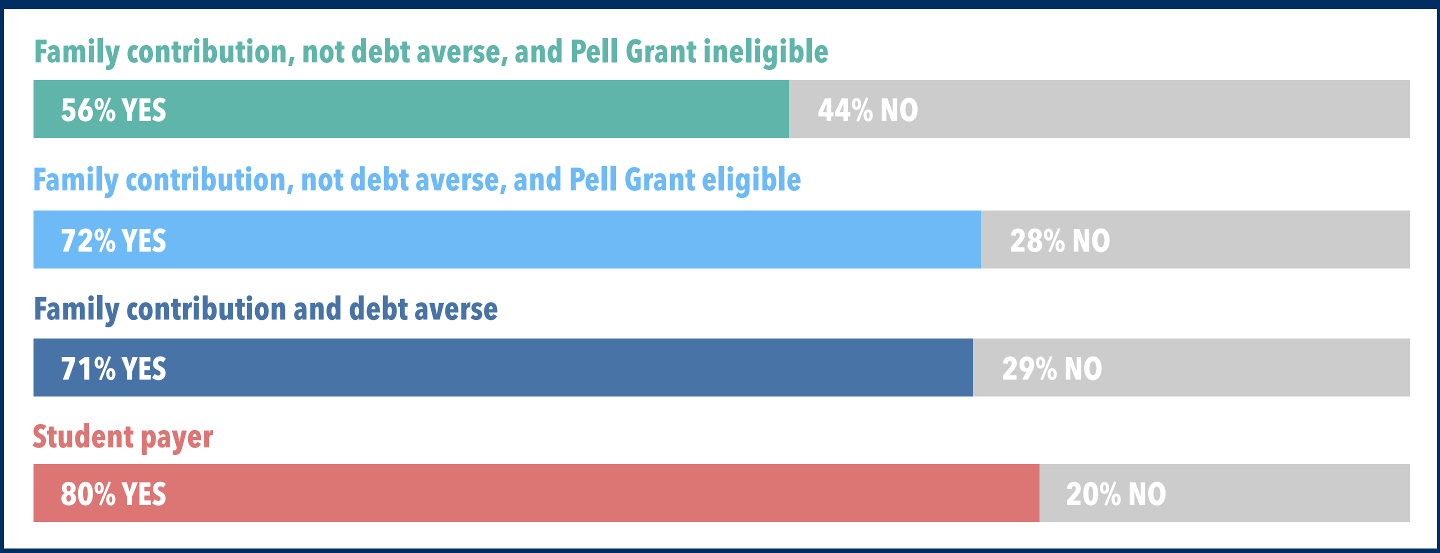
Table 1: Descriptive statistics of survey respondents by four key categories

Characteristics	1 Pell Grant ineligible[(a)]	2 Pell Grant eligible[(b)]	3 Debt averse[(c)]	4 Student payer
of sample	32%	12%	36%	20%
11th grade 12th grade	35% 20%	11% 16%	36% 34%	18% 29%
White Black Hispanic Other[(d)]	38% 9% 12% 25%	8% 20% 30% 17%	35% 44% 35% 40%	20% 27% 24% 18%
First generation[(e)] Pell Grant eligible	9% --	27% 33%	33% 36%	31% 31%

Note: (a) Students who self-reported family income greater than $60,000.
(b) Students who self-reported family income $60,000 or less.
(c) Students who reported that they did not want any student loan debt.
(d) Includes students in other racial/ethnic categories as well as students who preferred not to indicate their race/ethnicity.
(e) First-generation students are those whose mother or father did not have any education past high school.

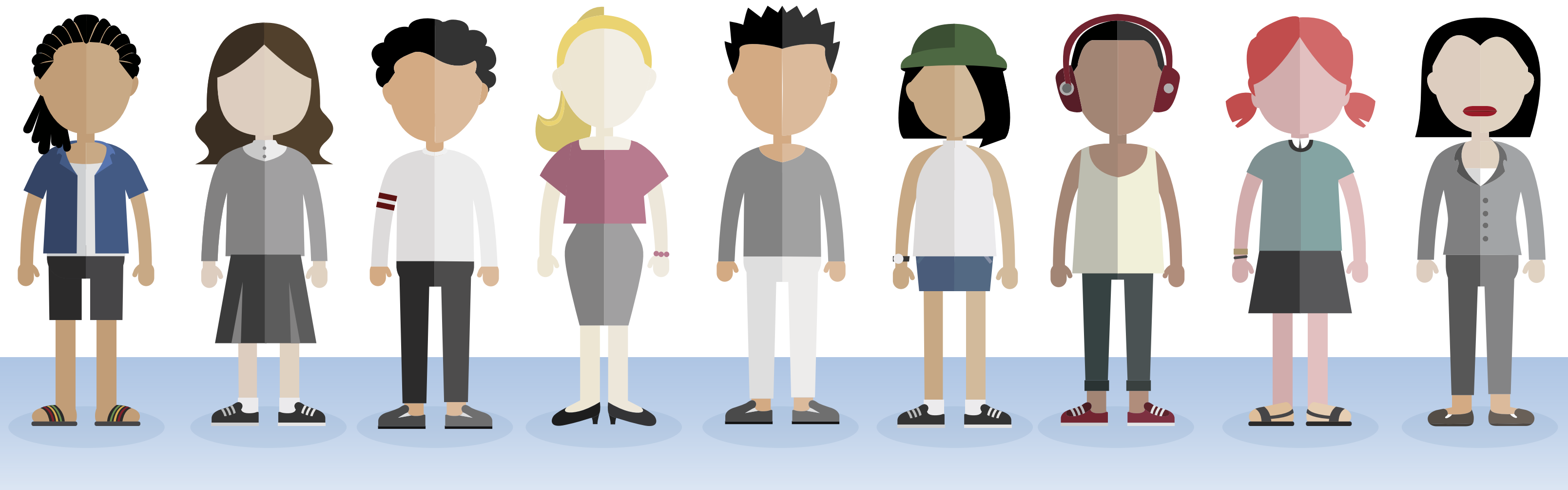
Despite these difference, one unifying characteristic across all four student groups is that they consider the price of college to be a very important factor in their decision making.[20] As shown in **Figure 1**, a majority of students indicated that price will be a very important consideration when choosing a postsecondary institution. As expected, students who will be paying for college on their own are more likely than others to consider price a very important factor, but even a plurality of students from higher-income families who are not averse to college-based debt indicated that price is a very important consideration in their college search. The perceived importance of the price of college makes the availability of student financial aid all the more pertinent. The next section discusses the various resources that students turn to when they want to learn more about how to pay for college.

Figure 1: Price was a very important factor in choosing a college



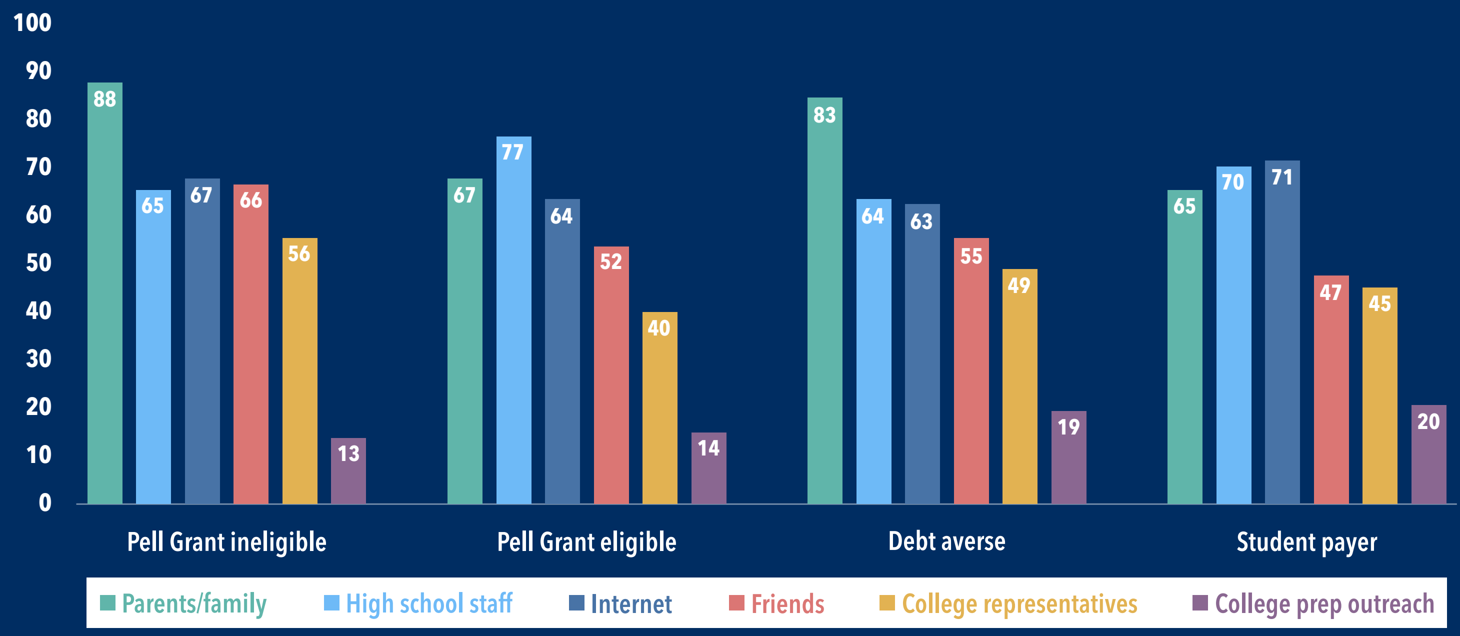
Sources of Information About Paying for College

Where high school students learn about resources to help pay for college is a key indicator of potential gaps in the quality, accuracy, and completeness of the information received. For instance, as shown in **Figure 2**, higher-income families who are not averse to college-based debt relied more heavily on parents and friends, which makes sense as these individuals likely have some prior experience with the financial aid application process. On the other hand, students who are planning to pay for college on their own are more likely to rely on high school staff and online resources to learn more about how to pay for college. While convenient and often free, these means (i.e., high school staff and online resources) may not be as up-to-date, personalized, or accurate as other means to fully inform these students.[21]



As shown in **Figure 2**, one of the least likely sources of information about how to pay for college is speaking with a college representative. This is problematic for two reasons. First, college representatives are better positioned than the other sources to discuss their institutions' financial aid process and availability of aid; second, students from higher-income families who are not averse to college-based debt are more likely to indicate meeting with college representatives than all other students. In other words, college representatives are not reaching enough of the students who could use their assistance and advice the most.

Figure 2: Sources of information about paying for college[a]



Note: (a) Percentages can sum to more than 100, as students could report more than one information source.

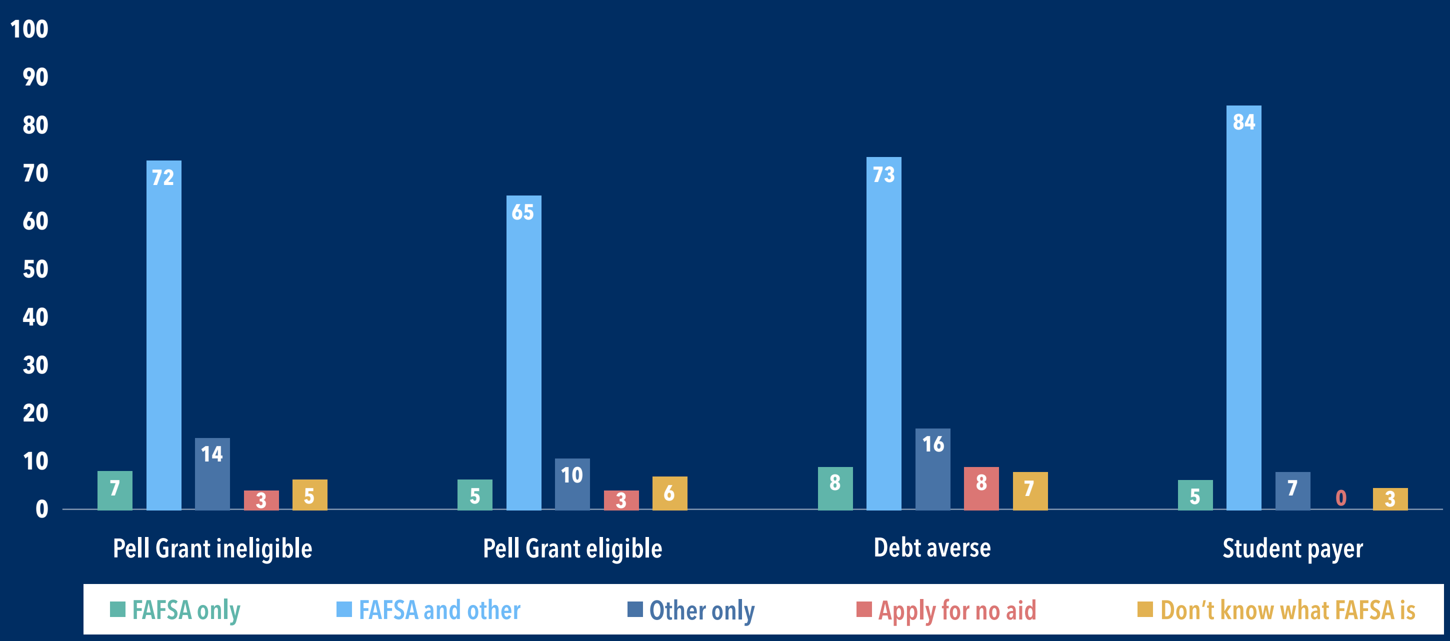
However, college prep outreach programs, such as GEAR UP, Upward Bound, AVID, and many others,[22] were by far the least likely source of information about paying for college, but could be a function of their reach more than their remit. These programs were designed in large part to help low-income or first-generation households navigate the college admissions and financial aid processes and, according to U.S. Department of Education data, roughly five percent of high school students nationally participate in the three large federal programs listed above.[23] So although survey respondents as a whole may not rely on them for information about paying for college, these programs could be an extremely valuable information source for those who participate in them.

Applying for the FAFSA

Regardless of the source of information about paying for college, students need to know about the FAFSA. Completing the FAFSA is the first step in the financial aid application process. Not only does the information collected on the FAFSA determine eligibility for federal financial aid (e.g., Pell Grants, work/study, etc.), but many state- and institution-based aid programs also rely on the FAFSA. Our findings confirm the importance of the need to inform students that submitting the FAFSA is necessary to unlock all available federal and state financial aid and thus lower the price of college.

As shown in **Figure 3**, while the percentage of respondents who use the FAFSA for federal financial aid purposes only varies between 5 and 8 percent, the percentage of those who use the FAFSA to bundle other types of financial aid is roughly 8 to 17 times greater. Students who are paying for college on their own are the most likely of the four groups to complete the FAFSA and other financial aid applications. And their practice has paid off, in a sense, as this group was most likely—two-thirds of student payers—to indicate that the FAFSA completion process was clear.

Figure 3: Planning to apply for federal aid or other type of financial aid



Although not quite as large as the student payers, the other three groups indicated similarly high levels of clarity about completing the FAFSA (between 56 and 62 percent). Interestingly, the group at the bottom end of the clarity scale was higher-income families who are not averse to college-based debt. This might be due more to the complexity of their family financials than to the difficulty of the questions asked on the FAFSA. But understanding how to complete and submit the FAFSA does not seem to translate to a broader comprehension of basic student financial aid options and terms.

Assessing Students' Financial Aid Knowledge

As noted above, FAFSA is the first—not final—step in the financial aid process. Once a loan is used to pay for one's college it must be paid back, and repayment options can be quite overwhelming. For example, students who finance their college education via federal loans can opt for a regular or graduated repayment plan, a "Pay As You Earn" plan, and at least three types of income-based plans (standard income-based repayment, income-contingent repayment, and income-sensitive repayment).[24] The repayment terms for private loans are somewhat easier to understand, but generally speaking there is less flexibility around repayment options to avoid delinquency or default.

To test students' actual understanding of student financial aid options and terms, we asked them three financial literacy questions, which were developed by Drs. Angela Boatman and Brent J. Evans:[25]

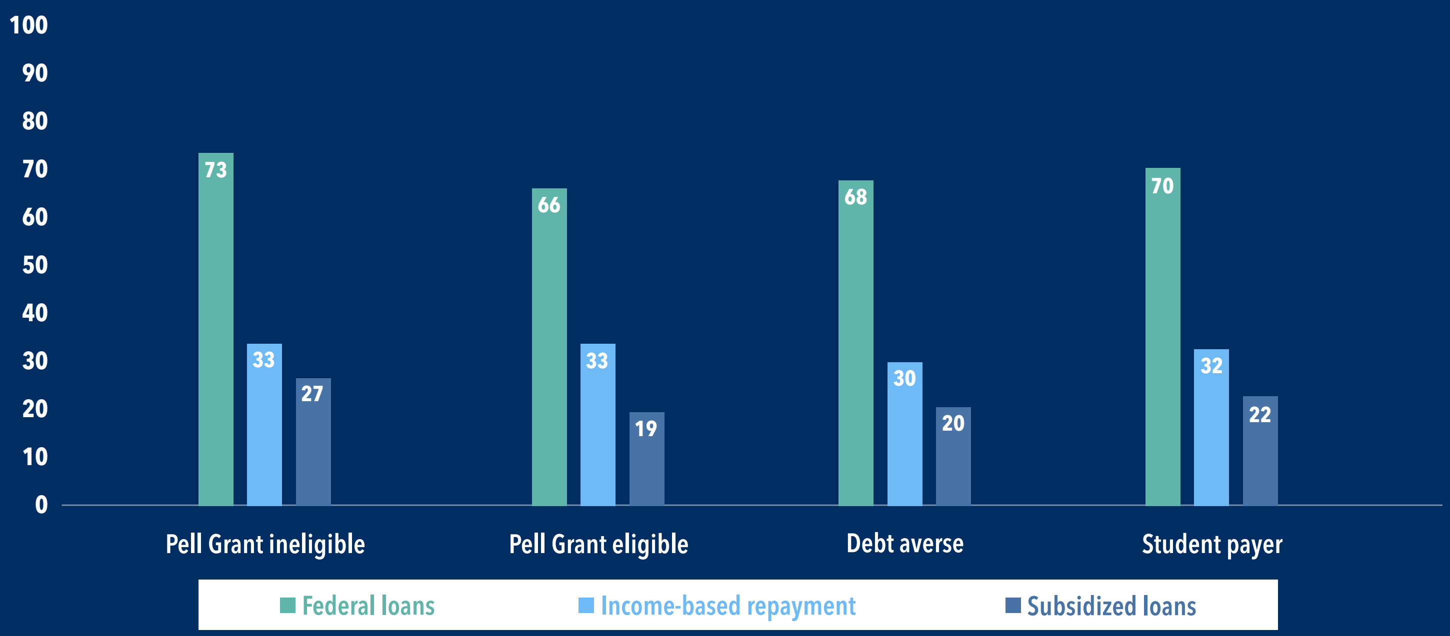
1. **True or False?**
The federal government offers student loans to help students pay for college.

2. **True or False?**
There is a student loan repayment option which allows me to repay my student loans based on how much money I make in my job after college. For example, if I make $35,000 I will pay less each month than someone who makes $65,000.

3. **Yes or No?**
Does the government pay the interest on student loans while students are still in college for some types of federal loans?

The results are consistent with Boatman and Evans (2017) and highlight an urgent need for more financial literacy–specific interventions, especially in light of the economic stakes at hand (See **Figure 4**). A majority of students correctly answered the first question about the federal government offering student loans. On the other hand, the percentage of students who knew the underlying principles of income-based repayment and whether the federal government "subsidizes" borrowers by paying their interest on existing loans while the student is still enrolled in college are shockingly low. Roughly one-third of students answered the former correctly and, with one exception, two in five were able to answer the latter correctly. The one exception was students from higher-income families who are not averse to college-based debt but, even so, 73 percent did not know that loans from the federal government are subsidized.

Figure 4: Knowledge of student financial aid options and terms



Conclusion

For the foreseeable future, student loan debt will continue to affect the college planning and enrollment decisions of young adults. This debt will also influence post-college employment and other important life choices, such as enrolling in graduate school, buying a home, or getting married. Thus, it is critical that students are able to access as much financial aid, preferably non-loan aid, as is available and understand how to manage any college-based student loan debt after their time in postsecondary education is over.

Recommendations

Based on the survey responses from roughly 1,200 students in grades 11 and 12 who registered to take the ACT®, there are three actions to be undertaken:

1 **Information tailored for different student groups: Where possible, a more nuanced view of high school students and their financial needs should be adopted. For example, in addition to collecting information on family income and available assets, researchers and practitioners should try to collect information about students' aversion to college-based debt and whether they are the primary party responsible for paying for all college expenses. Doing so can allow for more targeted information based on each student's unique needs.**

2 **Improved outreach by college representatives: Colleges need to improve their outreach to the students who could use their assistance and advice the most; without it, students may not have the most up-to-date, personalized, or accurate information to make college enrollment and student financial aid decisions. Colleges and universities that draw from the same feeder high schools and school districts should also work together with school counselors and nonprofit college access organizations to ensure consistency and clarity in the information that is shared with students and their families.**

3 **Additional information about financial literacy: Despite efforts to increase financial aid literacy, there remains an urgent need for more financial literacy–specific interventions. Consistent with previous studies, students in our study did not understand basic information about the student financial aid process. Further, the debt-averse students may need additional information about the value of undertaking some (but not too much) debt, and the difference in types of debt.**

Notes

1. National Center for Education Statistics, (2019) "Immediate College Enrollment Rates," https://nces.ed.gov/programs/coe/indicator_cpa.asp; Snyder, T.D., de Brey, C., and Dillow, S.A. (2019). Digest of Education Statistics 2017 (NCES 2018-070). National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education. Washington, DC.

2. Brown, J.R., and Hoxby, C.M. (Eds.). (2014). How the Financial Crisis and Great Recession Affected Higher Education. Chicago: University of Chicago Press.

3. Zack Friedman, "Student Loan Debt Statistics in 2019: A $1.5 Trillion Crisis," Forbes, February 25, 2019, https://www.forbes.com/sites/zackfriedman/2019/02/25/student-loan-debt-statistics-2019/#502a5e89133f.

4. Stefan Lembo Stolba, "Student Loan Debt Reaches All-Time High in 2018," Experian, December 21, 2018, https://www.experian.com/blogs/ask-experian/state-of-student-loan-debt/. The $40,000 figure likely includes both undergraduate and graduate debt. According to The Institute for College Access and Success, borrowers in the Class of 2017, on average, owe $28,650 in student loan debt. "Student Debt and the Class of 2017," https://ticas.org/posd/home.

5. A loan is considered delinquent after just one payment is missed. After 90 days without payment, the loan is considered in default.

6. Alexandre Tanzi, "U.S. Student Loan Debt Sets Record, Doubling Since Recession," Bloomberg, December 17, 2018, https://www.bloomberg.com/news/articles/2018-12-17/u-s-student-loan-debt-sets-record-doubling-since-recession.

7. Jaison R. Abel and Richard Deitz, "Do the Benefits of College Still Outweigh the Costs?" Current Issues in Economics and Finance 20 no. 3 (2014).

8. The important distinction here is between college degree holders and those who leave higher education without a credential. For the latter group, the problem of student loan debt is exacerbated because they left college without the full benefit of the college degree but are still responsible for paying back all of their student loans.

9. Megan Leonhardt, "1 in 5 millennials with debt expect to die without ever paying it off," CNBC, January 9, 2019, https://www.cnbc.com/2019/01/08/1-in-5-millennials-with-debt-expect-to-die-without-ever-paying-it-off.html.

10. Flávio Cunha and James Heckman, "Decomposing Trends in Inequality in Earnings into Forecastable and Uncertain Components," Journal of Labor Economics 34 no.S2 (2016): S31–S65; Salvador Navarro and Jin Zhou, "Identifying Agent's Information Sets: An Application to the Lifecycle Model of Schooling, Consumption and Labor Supply." Review of Economic Dynamics 25 (2017): 58–92.

11. Judith Scott-Clayton, "Financial Aid Simplification: Why It Matters and Which Aspects Matter Most," The Mixed Methods Blog, Community College Research Center, November 27, 2017, https://ccrc.tc.columbia.edu/blog/financial-aid-simplification-why-it-matters-and-which-aspects-matter-most.html.

12. The analytic sample was weighted to adjust for survey respondent characteristics. Propensity score weighting was employed. Here, a logistic model was estimated predicting the probability of survey participation given population characteristics. We used students' race/ethnicity, gender, high school GPA, and parents' educational and income levels as predictors.

13. This is often referred to as need-based aid. There are dedicated grant aid programs for low-income families, such as federal Pell Grants and a number of state student financial aid programs, but they are losing their purchasing power (see Cook and King, 2007; Mundel, 2008; Pingel, 2017). Also, as Doyle (2010) notes, institutional grant aid programs, which is financial assistance provided by institutions to students, are increasingly being used to target students with comparatively high ACT and SAT scores over those with financial need. This shift was observed in public non-doctoral institutions and private four-year institutions but not public four-year doctoral institutions.

14. College Board, Trends in Student Aid, 2018.

15. There is no fixed income threshold to receive a Pell Grant and the size of the award depends on many factors, such as family size, colleges' cost of attendance, and so on. According to national data, most Pell Grant recipients come from families with incomes of $40,000 or less, but it is still possible for students from families with incomes up to $60,000 to receive an award. We decided to be more inclusive with our definition.

16. See Angela Boatman, Brent J. Evans, and Adela Soliz, "Understanding Loan Aversion in Education: Evidence from High School Seniors, Community College Students, and Adults," AERA Open, (January 2017), and Sara Goldrick-Rab, and Robert Kelchen, "Making Sense of Loan Aversion: Evidence from Wisconsin," in Student Loans and the Dynamics of Debt, 317–378, for a discussion about loan aversion among students and families.

17. In this study, students who self-report family income less than $60,000 are considered "low income." Conversely, students who self-report family incomes greater than this threshold are considered "higher income." For the purposes of terminological cohesion, we refer to the former as "Pell Grant eligible" and the latter as "Pell Grant ineligible" throughout the brief.

18. The denominator used in this calculation comes from the 2015–16 National Postsecondary Student Aid Survey.

19. Scott Jaschik, "Where Do Colleges Recruit? Wealthy and White High Schools," Inside Higher Ed, (April 1, 2019), https://www.insidehighered.com/admissions/article/2019/04/01/study-finds-public-universities-focus-out-state-recruitment-high.

20. We asked students how important the price of college and other factors were in their college choice process. We did not, however, distinguish between sticker price and net price. The former is the stated tuition and fees and the latter refers to the price students' pay after scholarships and other aid is taken into account. For a thorough discussion of the difference, see Phillip B. Levine, Transparency in College Costs, Brookings Institution, Economic Studies Working Paper, November 2014, https://www.brookings.edu/wp-content/uploads/2016/06/12_transparency_in_college_costs_levine.pdf.

21. An example of this are net price calculators, which postsecondary institutions are required to post on their websites. However, according to The Institute for College Access and Success (TICAS), they often understate the true costs of attendance.

22. In the survey, GEAR UP, TRIO, and Upward Bound were provided as three examples of college prep outreach programs.

23. The percentage of high school students who participated in GEAR UP, Upward Bound, and AVID comes from the High School Longitudinal Survey of 2009.

24. For more details about the different repayment plans for Direct Loans and Federal Family Education Loans, see https://studentaid.ed.gov/sa/repay-loans/understand/plans.

25. Angela Boatman and Brent J. Evans, "How Financial Literacy, Federal Aid Knowledge, and Credit Market Experience Predict Loan Aversion for Education," The Annals of the American Academy 671 (2017): 49–68. The authors granted permission to use their questions in the survey.

ACT® Center for Equity in Learning

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