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THE PRESIDENT HAS SEEN. *J.F.*

THE WHITE HOUSE

WASHINGTON

March 19, 1975

MEETING ON HIGHER EDUCATION STUDENT AID  
POLICY

Thursday, March 20, 1975  
4:00 p.m. (30 minutes)  
The Cabinet Room

From: Jim Cannon *Jim Cannon*

I. PURPOSE

To review policy options available under the Higher Education Act Student Assistance (Title IV) and to seek your policy guidance prior to preparation of Administration testimony for hearings next week.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background:

1. The Higher Education Amendments of 1972 have been automatically extended to June 30, 1976.
2. FY 77 authorizations are being reviewed now because you are required to submit by May 15 any plans to extend, change or modify current authorizations in FY 77.
3. Chairman O'Hara, of the House Subcommittee on Higher Education, has begun hearings on proposals to replace Title IV (Student Assistance) and the Administration is scheduled to testify early next week.
4. Secretary Weinberger and Jim Lynn have submitted for your review their assessment of Administration policy alternatives. A summary is at Tab A. The Lynn/Weinberger paper is at Tab B. I concur in the conclusions they have reached but believe it necessary to note the long term implications of the proposals they are putting before you.

5. In reviewing the attached materials on the options available in regard to higher education students grant and loan programs, it is important to note: OMB and HEW have concluded that the best course of action is not a major overhaul of existing programs but rather some modification of existing programs with perhaps some increased funding in the out years.
6. Because the authorization for the options available would not go into effect until FY 77 the decisions before you, if enacted, could set Federal student grant policy through FY 80.
7. Because the grant programs in question are funded one year in advance, funding level decisions agreed to now would not actually affect student grants until FY 78.
8. The options presented in the attached paper do not specifically address the problems faced by the private institutions except to the degree that making more student financial aid available will benefit them.
9. It also means that given fiscal restraints, little relief can be provided to middle income families who are often eligible for very little student grant assistance under present or proposed formulas.
10. Given the fiscal restraints facing the Federal Government, the need for policy decisions prior to May 15, 1975, and the complexities of attempting any major overhaul, it does appear that our focus must be on modifying existing programs and altering funding levels for in the out years but it is important that we proceed with an understanding of the longer term implications of such a focus.

B. Participants:

Caspar Weinberger  
Jim Cannon  
Jim Lynn  
Dick Dunham  
Paul O'Neill

Bill Morrill, HEW Assistant Secretary for Planning  
Virginia Trotter, HEW Assistant Secretary for  
Education  
Ted Bell, HEW Commissioner of Education

C. Press Plan:

To be announced.

III. TALKING POINTS

1. Cap, why don't you tell us where we are with the student aid problem.





EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

March 13, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES R. LYNN

SUBJECT: Meeting on Higher Education with Secretary  
Weinberger

Attached are background papers for your meeting tomorrow on Higher Education with Secretary Weinberger. They include an issue summary and a joint HEW/OMB options paper. Secretary Weinberger was out of town when the final options paper was typed, but wants you to know that he agrees with its structure. The paper is being provided to you for background information without the Secretary's recommendations or signature, but he will be prepared to make his recommendations when he meets with you tomorrow.

Attachment

## SUMMARY OF STUDENT GRANT ISSUES

### Assumptions

- Your decisions are being requested only on the structure and size of U.S. Office of Education Student Grant Programs (\$1.1 billion out of the total of \$7.4 billion requested for Higher Education Programs in the FY 1976 Budget).
- We specifically do not recommend or discuss any new or expanded Federal role or resources for:
  - a) institutional support, or
  - b) Work-Study Programs, or
  - c) Guaranteed and Direct Loan Programs,

nor do we address the sizeable Veterans Education Programs.
- Federal student grant programs should deliver aid directly to students under a single national award formula. This has been the approach recommended in every budget since 1972. However, Congress has rejected this single program approach and has diverted part of the funds to older student grant programs which delegate much of the award decision to campus student aid officers.
- A student and his family bear the principal responsibility for paying for a higher education. All Federal student grant programs should include calculation of what a student's family can reasonably be expected to pay. Grant aid should only be provided to help pay education costs that exceed this amount. Grant aid should not be used to reduce the expected family contribution.

### Student Grant Program Decisions

Three interrelated decisions are required:

- What should be the objectives and corresponding structure of the award formula?
- At what level should the program be funded?

- Should the program include incentives for States to participate with their own funds?

### Grant Program Objectives

Two different objectives have been identified for student grant programs:

- To make it possible for any qualified student to attend a low-cost college, regardless of his-her financial means.
- To make it easier for students to attend colleges that cost more than a minimum amount.

The grant programs that most directly embody these two different goals are:

Alt. 1. Grants, which when added to what a low-income family can contribute; will provide a student with enough to pay for some basic level of college expenses (e.g., the \$1100 current average cost of room and board).

Alt. 2. Grants which pay a part (e.g., 30%) of any college costs above what the student's family can contribute.

A variety of programs can be designed that contain elements of both of these approaches. If program funding were kept at the level required to implement either Alternative 1 or Alternative 2 alone, then any such combination program would have to be a compromise between the two goals. One such alternative, which is similar to the current Basic Grant Program and which largely emphasizes the access objective, is:

Alt. 3. Grants which pay a part (e.g., 50%) of a student's need but with the total from the grant and the family limited to no more than that amount necessary to cover some level of basic college expenses (e.g., \$1600).

### Program Level

Either of the two goals described above and embodied in Alternatives 1 and 2 could be achieved at the \$1.1 billion level requested for student grant programs in your FY 1976 Budget. To realistically achieve both goals would require an additional \$600 million. Such an expanded program that would share costs over a wider range of college choices is:

Alt. 3 (expanded). Grants which pay a part (e.g., 50%) of a student's need but with the total from the grant and the family limited to an amount necessary to cover a somewhat higher level of college expenses (e.g., \$2000).

Of course, with an increased level of funding, either of the approaches embodied in Alternatives 1 or 2 could be made more generous but this is not recommended.

### State Participation

If you wish to achieve both program goals you can either increase the Federal program level or provide incentives for the States to participate. In order for many States to follow a Federal lead in student assistance, they would either have to increase their total Higher Education funds or redirect part of their Higher Education funds away from current purposes (mainly subsidies to public institutions) and toward the student aid goals described above.

Decisions

Program Direction

- Alt. 1 - Provide grants to cover basic expenses for low-income students
- Alt. 2 - Provide grants to make it easier to attend more expensive schools
- Alt. 3 - A combination of these two program directions

Program Level

If you wish to pursue both program directions (Alt. 3), you can choose either:

- Alt. 3 - A compromise between the two program objectives (\$1.1 billion)
- Alt. 3 (expanded) - Both program objectives (\$1.7 billion)

State Participation

If you choose the expanded program level you can choose to provide incentives for the States to participate with their own funds.

Yes

No

*B*

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Higher Education Legislation - Student Assistance

Congress has called hearings this month on extension of the Higher Education Act, and the Administration's position will be sought. We now need your decisions on certain basic elements of the Administration's proposal so that the substantial remaining detailed work on developing testimony can be completed in time for hearings on Tuesday, March 18.

We discussed with you in December a variety of issues about Federal programs related to higher education. Here we will concentrate on the issue central to the development of the new legislation--the nature and structure of the Federal role in student assistance.

I. Background

Currently, the total cost of higher education, including student living expenses, is more than \$30 billion. Of this total, families pay 37 percent; State and local governments pay another 37 percent; the Federal Government pays 18 percent; and private philanthropy pays 8 percent. The State support has been largely in the form of subsidies to public institutions, thus permitting lower tuition in these schools. The bulk of Federal support, on the other hand, is in the form of financial aid to students with the rest being research support and some limited institutional support in certain special need areas. Students at both public and private institutions depend in part on Federal aid (some four million students or almost half). For many, Federal aid is the only assistance, other than family support, to which they have access.

There is no clear consensus about specific Federal or State roles or the appropriate responsibilities of families and students. The traditional State effort to hold down tuition

reduces the financial barriers to all students, but not enough to overcome the total financial barrier which includes room and board costs. Nor has the State effort dealt effectively with the whole question of enabling students to afford to attend high-priced private institutions or otherwise helping these institutions to compete for students. Only a few States have adopted sizeable student assistance programs which address these concerns of Federal aid. A major issue raised later is whether you wish to adopt a proposal which would provide incentives for States to follow the Federal lead more closely.

The situation is made more complex by a system of educational institutions which vary widely in the price they charge students for their education, ranging from low priced commuter institutions to high priced, prestigious private universities. There are over 2,500 public and private institutions with diverse educational goals, financial characteristics and tuition policies. This variation raises questions concerning what costs and what proportion of such costs Federal higher education programs should take into account. In order to provide a basic picture of the current patterns of student attendance, we have attached at Tab A a table which displays how students of different family incomes are attending schools of different cost ranges.

The present structure of both Federal and State support for higher education is under substantial pressure. The costs of present governmental programs are rising. The ability to provide the lowest income student access to opportunities on a par with those of other students is threatened by the rising costs of higher education. Moderate income families are finding that the rising cost of education and the higher cost of living in general are putting pressure on their ability to arrange for college for their children. At the same time enrollments, while still growing, are falling short of earlier projections, leaving many underutilized buildings and unemployed Ph.Ds. All of these factors are pressing the Federal Government to:

- 1) find more resources to support higher education, or
- 2) reduce and clarify our goals, or
- 3) restructure the programs at the Federal or Federal/State level to achieve better outcomes, or
- 4) some combination of the above.

## II. Fundamental Choices for Student Assistance

Federal support for higher education has been predicated on two general objectives: (1) extending educational opportunities to those with limited means through student assistance, and (2) through the same student aid, encouraging a diverse and responsive collection of colleges and universities. We assume a continuation of the general objectives through direct aid to students. There are, however, three conceptually different roles the Federal Government has played, or could play, in student assistance--each with somewhat different purposes and implications.

- ° Lending and work assistance. The largest sources of financing for higher education, apart from parental support, are student earnings and loans. Most of this total is private funds. However, Federal programs could and do provide essential incentives for private student lending and provide a significant number of job opportunities. The Guaranteed Student Loan Program accounts for nearly \$1.2 billion of private credit annually, stimulated by Federal outlays of \$580 million for interest subsidies and default payments. The FY 1975 budget provides \$321 million in new capital in addition to almost \$3 billion already in the direct student loan program. The College Work Study Program provides subsidized student employment at a cost of \$300 million out of total earnings of full-time students on the order of \$5 billion.
- ° Grants to guarantee some specified level of resources for students whose college costs exceed what their families can pay. A grant could be added to the amount which each low-income family can be expected to contribute to bring the total resources available for education (exclusive of borrowing and student earnings) up to some specified level. This approach would drive Federal funds toward the lowest income students and families in order to bring them even with more prosperous, but clearly not affluent families. It would also make the Federal program less useful to higher cost institutions and higher income families than programs which include a factor for cost of attendance.

- ° Grants to share with the family the cost of attending a more expensive college for students whose college costs exceed what their families can pay. A grant could pay some percentage of those college costs that exceed what a family can contribute. This approach would distribute assistance over a larger income spectrum and would make the Federal program more useful to higher income families and higher cost institutions. It would do so at the sacrifice of providing less funds to the lowest income groups, thereby making their attendance at even low-cost institutions more difficult.

The existing Federal grant programs compromise between these last two Federal roles. Although the emphasis in the Basic Grants Program is clearly on enabling low income students to attend college, it also provides some help for choice among more expensive colleges and for somewhat more prosperous families.

The structure and budget resources of grant programs are central issues. It is clear that there are important issues also with respect to the Work Study Program and Guaranteed Student Loan Program, including the default issue, which must be dealt with effectively. However, added budget resources are not critical to success in either work or loan programs. Indeed, we can and should try to minimize loan subsidies and default costs to provide sufficient resources for the longer term for other student assistance programs. At the same time, it is not practical to think of doing away with the Guaranteed Loan Program altogether--which is relied on to provide \$1.2 billion from private capital sources annually--without severely disrupting college opportunities.

### III. Implications of Alternative Grant Programs

The issues on which we now need your decisions come down to choosing the basic framework and size of grant programs and determining whether or not to seek major State participation in a complementary effort. In order to illuminate these issues and your choices, we have portrayed on the table below three different alternatives at two different resource levels. Several observations need to be made about this array of alternatives:

- The first two alternatives contain the program structures that most directly embody the two grant program roles that were described above--an assurance

of resources sufficient for access to a low-priced college and a Federal sharing in the costs of choice among colleges of varying prices. The last alternative combines both roles.

- The lower dollar level (\$1.1 billion) is the approximate level required to achieve the objectives of either Alternative 1 or Alternative 2, and is also the current funding level for Federal grant programs. However, at this funding level, any program that combines the two student grant objectives would have to be a compromise. If both objectives were to be achieved in a combined program, expanded funding of \$1.7 billion would be required. This higher level could, theoretically, be achieved either by the Federal Government alone or in a Federal/State program with the Federal resources remaining about the same (\$1.1 billion) and the States adding the \$600 million.

#### Grant Program Alternatives

	<u>Current Program Level (\$1.1 billion)</u>	<u>Expanded Program Level (\$1.7 billion)</u>
<u>Alt. 1. Minimum Resource Guarantee.</u> Every student would be guaranteed that the sum of what his family can be expected to pay plus his grant would bring him up to some specified level.	Resource guarantee of \$1300	Resource guarantee of \$1600
<u>Alt. 2. Sharing the Costs of More Expensive Schools.</u> A grant would pay a fixed percentage of "need" (those college costs that exceed what a family can be expected to pay).	A grant to pay 30% of "need"	A grant to pay 40% of "need"
<u>Alt. 3. A Single Program That Combines the Objectives of Alt. 1 and Alt. 2.</u> A student would receive a cost sharing grant but with a limit placed on the total resources available from the grant plus family contributions.	Grant to bring resources up to \$1600 but not to exceed 50% of "need"	Grant to bring resources up to \$2000 but not to exceed 50% of "need"

Several of the options on this array do not appear acceptable to us. We think you should reject options which:

- Would reverse progress to date toward the objective of putting a minimum-cost education within reach of all. This criterion rules out Alternative 2, at either funding level. A low-income student would receive a cost-sharing grant equal to only 30 percent or 40 percent of his need, leaving a balance of about \$1,000 to be met from his earnings--an unrealistically large amount in many cases.
- Would concentrate funds on only one of the two grant program objectives when both objectives could be achieved. This criterion rules out Alternatives 1 and 2 at the higher funding level of \$1.7 billion. Further, if State participation in this higher level of funding is anticipated, we would not want to restrict them to only one objective.

If, as we believe, these considerations should be decisive, there remain only three options. Tab B shows the funding implications of the options for students of different income brackets attending different types of colleges. In summary:

- A program which concentrates funds exclusively on a resource guarantee objective. (Alternative 1 at current funding levels of \$1.1 billion)
- A program which, like Basic Grants, compromises between the access and choice objectives. (Alternative 3 at current funding levels of \$1.1 billion)
- A program which seeks to meet both objectives. (Alternative 3 at the expanded funding level of \$1.7 billion)

The Choice at the Lower Funding Level. If you choose to remain at the current level of resources for student grant programs (\$1.1 billion), your remaining decisions are between Alternatives 1 and 3 and are largely tactical. Both alternatives will assure low-income students sufficient resources that, when added to amounts that they can reasonably expect from their own earnings, will pay the costs of attending

low-priced colleges. Alternative 3 would require the lowest income students to earn not more than \$500 more than Alternative 1, or \$800 in total in order to attend low-cost colleges. However, Alternative 3 will allow slightly more aid for higher income students at higher cost schools. Alternative 3 also embodies the compromise between program objectives that is contained in the current Basic Grants Program.

The Choice at the Higher Funding Level - State Participation.

At this higher program level we would recommend consideration of only Alternative 3, which combines both of the student grant objectives that we have discussed above. The only decision remaining at this program level that you need to make now, is whether or not to provide incentives to induce State participation in funding (up to \$600 million).

Seeking State funds has the great advantage of putting both access and choice objectives within reach without an increase in the Federal share in financing higher education. However, you will want to weigh the following considerations:

- 1) The Federal Government would be in the position of urging the States, through financial incentives, to undertake responsibilities for student assistance to which only a few States have allocated large-scale resources in the past.
- 2) Those States which already have substantial programs would be expected to welcome significant Federal financing, especially if the details of such a proposal allowed for some variation in program rules and administration from State to State.
- 3) Those States which decided not to participate, despite Federal incentives, would deprive their students of some part of their normal share of Federal funds for student aid. Only a portion of the Federal funds would be earmarked for State matching. The remaining funds could provide a "floor" program, entirely Federal in financing, that would assure at least minimum cost college opportunities even in those States that choose not to participate.

- 4) Those States which decided to participate but did not wish to increase the total amount of their support for higher education would be driven to increase tuitions at public institutions. Such increases would be at least partly offset for those students who get grants. Nonetheless, this possibility would probably result in opposition to the proposal from low-tuition advocates.

Should you decide to proceed with incentives for State participation, it seems likely that some States will participate with added State resources. Others will participate in whole or in part with some added resources and some diversion of funds from more traditional institutional support. Others may not participate at all. Therefore, we would expect total grant resources to fall somewhat short of the \$1.7 billion, with some of the total derived from a shift of State institutional aid to student aid.

#### IV. Decisions and Recommendations

##### Program Direction and Program Level

	<u>Current Program Level</u> (\$1.1 billion)	<u>Expanded Program Level</u> (\$1.7 billion)
<u>Alt. 1. Minimum Resource Guarantee</u>	<input type="checkbox"/>	<input type="checkbox"/> (not recommended)
<u>Alt. 2. Sharing the Costs of More Expensive Schools</u>	<input type="checkbox"/> (not recommended)	<input type="checkbox"/> (not recommended)
<u>Alt. 3. A Single Program That Combines the Objectives of Alt. 1 and Alt. 2</u>	<input type="checkbox"/>	<input type="checkbox"/>

##### Incentives for State Participation in Funding

This decision is necessary only if you choose the expanded program level of \$1.7 billion.

Yes   
(recommended)

No   
(not recommended)



Tab A: Attendance Patterns

<u>Family Income</u>	<u>Cost of Attendance</u> <sup>1/</sup>		
	0-\$1,700	\$1,700-\$3,300	\$3,300+
0-\$6,000	460,000	428,000	116,000
\$6,000-\$12,000	563,000	692,000	224,000
\$12,000+	1,345,000	1,747,000	857,000

1/ The typical school in each of the three ranges:

\$0-\$1,700 : Public Commuter College  
 \$1,700-\$3,300: Public Resident College  
 \$3,300+ : Private College

Tab B: Distribution of Funds (\$1.1 B Program Level)

Alt. 1 - Minimum Resource Guarantee

Cost of Attendance<sup>1</sup>

<u>Family Income</u>	\$0-1700	\$1700-3300	\$3300 +	<u>Total</u>
\$0-6,000	292	237	30	559
\$6-12,000	182	231	53	466
\$12,000+	29	36	10	75
<u>Total</u>	503	504	93	1,100

Alt. 2 - Cost Sharing

Cost of Attendance<sup>1</sup>

<u>Family Income</u>	\$0-1700	\$1700-3300	\$3300 +	<u>Total</u>
\$0-6,000	126	212	34	374
\$6-12,000	60	272	104	438
\$12,000+	0	109	184	294
<u>Total</u>	186	593	321	1,100

Alt. 3 - Combination Program

Cost of Attendance<sup>1</sup>

<u>Family Income</u>	\$0-1700	\$1700-3300	\$3300 +	<u>Total</u>
\$0-6,000	168	280	33	481
\$6-12,000	102	312	77	491
\$12,000 +	51	61	15	127
<u>Total</u>	321	654	125	1,100

<sup>1</sup>/The typical school in each of the three cost ranges

\$0-1700: Public Commuter College

\$1,700-\$3,300: Public Resident College

\$3,300+: Private College

Tab B: Distribution of Funds (\$1.7 B Program Level) - Continued

Alt. 1 - Minimum Resource Guarantee

Cost of Attendance<sup>1</sup>

<u>Family Income</u>	\$0-1700	\$1700-3300	\$3300 +	<u>Total</u>
\$0-6,000	398	343	39	780
\$6-12,000	249	388	95	732
\$12,000+	75	90	23	188
<b>Total</b>	<b>722</b>	<b>821</b>	<b>157</b>	<b>1,700</b>

Alt. 2 - Cost Sharing

Cost of Attendance<sup>1</sup>

<u>Family Income</u>	\$0-1700	\$1700-3300	\$3300 +	<u>Total</u>
\$0-6,000	194	328	52	574
\$6-12,000	93	419	160	672
\$12,000+	0	168	286	454
<b>Total</b>	<b>287</b>	<b>915</b>	<b>498</b>	<b>1,700</b>

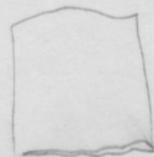
Alt. 3 - Combination Program

Cost of Attendance<sup>1</sup>

<u>Family Income</u>	\$0-1700	\$1700-3300	\$3300+	<u>Total</u>
\$0-6,000	231	385	61	677
\$6-12,000	110	496	135	741
\$12,000+	14	134	134	282
<b>Total</b>	<b>355</b>	<b>1,015</b>	<b>330</b>	<b>1,700</b>

11 / 11

\$1,100



1,100 - 600

1,100

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FA 3

MEETING ON HIGHER EDUCATION  
STUDENT AID POLICY

Thursday, March 20, 1975

4:00 P. M.

THE PRESIDENT HAS SEEN. *J. J.*