



The Billion Dollar Benefits of Student Loan Reform

A New Analysis Reveals that Student Loan Reform Could Help Inject More Than \$100 Billion of Increased Income into the Nation's Economy

Ulrich Boser | March 2010

Over the coming days, congressional leaders will be debating the virtues of the Student Aid and Fiscal Responsibility Act, which would end costly subsidies to student loan companies and reinvest the money into grants for low- and middle-income students. Part of the discussion revolves around the economic impact of the bill, and so we conducted a new data analysis examining the additional expected lifetime earnings gained by students who would get new Pell grants and graduate from college under the proposal.

The resulting numbers astounded us. Our analysis found that the reform could inject as much as \$126 billion in income into the economy over the lifetimes of those students.

Such an economic boost would have tremendous benefits for our nation and greatly help pinched state and federal budgets gain much-needed tax revenue. It would also benefit students, who would earn larger salaries and have better employment prospects. And it's clear that even relatively small sums of aid can make a big difference. A recent Brookings Institution study found that among low-income high school graduates, a grant-induced decline of roughly \$1,000 in net price resulted in an approximately 7 percentage point jump in college-going rates.

Indeed, for federal, state, and local governments, the reform of the student loan system seems a win-win: While making government work more efficiently, it allows a greater number of students to attend college who will in turn have higher incomes and produce larger tax revenues (see table).

Student loan reform a win-win

Additional estimated lifetime earnings of new Pell grant recipients who graduate from college under SAFRA

Estimated number of new Pell grant recipients	Additional lifetime earnings, low estimate per college graduate	Additional lifetime earnings, high estimate per college graduate	Additional lifetime earnings of new Pell grant recipients, low estimate	Additional lifetime earnings of new Pell grant recipients, high estimate
260,000	\$280,000	\$450,000	\$45,864,000,000	\$126,000,000,000

Note that we assume that only 63 percent of Pell grant recipients graduate. We discuss those details and other assumptions below. Sources: Author calculations based on Eric Lotke, Christine Lindstrom, and Armand Bironak, "Obama's Budget: Supporting Students, Not Banks" (Washington: Campaign for America's Future and U.S. PIRG, 2009); Christina C. Wei and Laura Horn, "Persistence and Attainment of Beginning Students With Pell Grants" (U.S. Department of Education and National Center for Education Statistics, 2002), p. 169; Sandy Baum and Jennifer Ma, "Education Pays: The Benefits of Higher Education for Individuals and Society" (New York: College Board, 2007), available at http://www.collegeboard.com/prod_downloads/about/news_info/trends/ed_pays_2007.pdf; Mary Pilon, "What's A Degree Really Worth?" *The Wall Street Journal*, February 2, 2010.

For our analysis, we looked at the estimated number of new Pell grant recipients under the proposal and then presumed that only 63 percent would graduate from college. We then multiplied that figure by a low and high estimate of additional lifetime earnings that the new grant recipients would earn with a college degree instead of a high school degree.

The analysis rests on a number of assumptions. First, it relies on data from a report called "Obama's Budget: Supporting Students, Not Banks," which estimated that reform would result in 260,000 new Pell grant recipients.¹ For its part, the "Obama Budget" report used a Congressional Budget Office analysis that projected the reform proposal would save \$47 billion over five years and enable the reinvestment of that money into students' grants. Increasing the award would bring in significantly more students into the program, estimated at 130,000 more students per \$100 increase in the maximum award, according to the report.

It's important to note, however, there have been subsequent CBO scores that have not been as optimistic, and it is unclear how that will shape the final proposal. And clearly, the final SAFRA bill's features matter a great deal as to how these estimates actually pan out. As student loan expert Mark Kantrowitz warns:

A lot depends on the details of SAFRA. SAFRA will maintain the distinction between discretionary and mandatory funding, despite President Obama's proposal to make it a true entitlement, and eligibility will still be based on discretionary funding. So the number of recipients might not increase.²

We also assume for the purposes of this analysis that 63 percent of Pell grant recipients graduate from college. This figure is based upon a National Center for Education Statistics report that listed three-year persistence rates for Pell grant students, specifically looking at beginning postsecondary students in the 1995-96 school year and comparing them to their enrollment status in 1998.³ It's possible that the economy as well as the final details of SAFRA have the potential to significantly change actual graduation and persistence rates of Pell grant recipients, which would alter the nature of these projections (see chart, next page).

To be sure, there's considerable debate over the estimated differences in lifetime earnings of college graduates over high school graduates. Estimates have varied over the years from more than \$1 million to less than \$300,000. A *Wall Street Journal* article detailed this debate,⁴ and we relied on figures from that article as well as research published by the College Board to calculate both a low and high estimate of expected income.

There are also a few things that this analysis does not take into account, including the fact that a Pell grant's economic yield varies widely by college. In other words, a Pell grant given to a student at Harvard University will most likely lead to a higher average income over a student's lifetime than a Pell grant given to a student at an average state university. The report also doesn't look at the economic income effects of having some college education versus only a high school degree. But most importantly, the study does not take into account that some students who would receive Pell grants under the proposal would still graduate from college even if they had not received a grant.

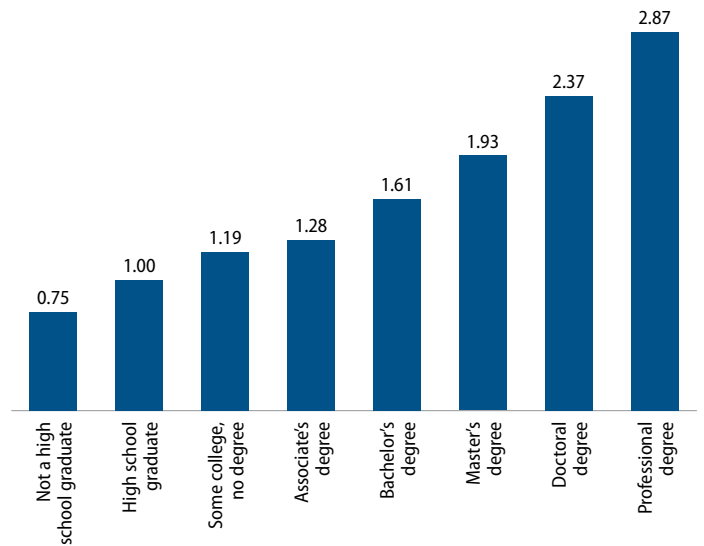
Whatever the limitations of our methodology, though, our findings are consistent with other research in this area, which has found that higher education represents a very sound investment for the federal government, with a return on investment from increased tax revenues of 14 percent and a payback period of less than six years.⁵ The College Board has also found that higher levels of education lead to both higher levels of earnings for individuals and higher tax revenues for federal, state, and local governments.⁶

Students who graduate from college also typically earn more money, have better health, and are more active in their communities. The SAFRA bill also has other economic benefits: The bill earmarks \$10 billion for community colleges, which play a crucial role in retraining workers, and another \$8 billion for early childhood education programs.

In order to keep our country's economic edge and make college affordable to all students, Congress should take action and pass SAFRA. The country can no longer afford to put student loan companies first—and American families second—when it comes to paying for college. Student loan reform would put more money in the hands of students and give our country the additional revenues it so clearly needs.

More money for education, more and better-paying jobs

Expected lifetime earnings relative to high school graduates by education level



Source: This chart comes from Sandy Baum and Jennifer Ma, "Education Pays: The Benefits of Higher Education for Individuals and Society" (New York: College Board, 2007), available at http://www.collegeboard.com/prod_downloads/about/news_info/trends/ed_pays_2007.pdf. In the document, the authors indicate that they relied on data from the U.S. Census Bureau (2006, PINC-03), and calculated the results. They also note that they "based on the sum of median 2005 earnings from ages 25 to 64 for each education level. Future earnings are discounted using a 3 percent annual rate to account for the reality that, because of foregone interest, dollars received in the future are not worth as much as those received today."

Endnotes

- 1 Eric Lotke, Christine Lindstrom, and Armand Bironak, "Obama's Budget: Supporting Students, Not Banks" (Washington: Campaign for America's Future and U.S. PIRG, 2009).
- 2 Email correspondence with author.
- 3 Christina C. Wei and Laura Horn, "Persistence and Attainment of Beginning Students With Pell Grants" (U.S. Department of Education and National Center for Education Statistics, 2002).
- 4 Mary Pilon, "What's A Degree Really Worth?" *The Wall Street Journal*, February 2, 2010.
- 5 Mark Kantrowitz, "The Financial Value of a Higher Education," *The National Association of Student Financial Aid Administrators Journal of Student Financial Aid* 37 (1)(2007).
- 6 Sandy Baum and Jennifer Ma, "Education Pays: The Benefits of Higher Education for Individuals and Society" (New York: College Board, 2007), available at http://www.collegeboard.com/prod_downloads/about/news_info/trends/ed_pays_2007.pdf.