



Office of the Press Secretary

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## FACT SHEET on the President's Plan to Make College More Affordable: A Better Bargain for the Middle Class

A higher education is the single most important investment students can make in their own futures. At the same time, it has never been more expensive. That's why since taking office, President Obama has made historic investments in college affordability, increasing the maximum Pell Grant award for working and middle class families by more than \$900, creating the American Opportunity Tax Credit, and enacting effective student loan reforms eliminating bank subsidies and making college more affordable.

However, despite these measures, college tuition keeps rising. The average tuition at a public four-year college has increased by more than 250 percent over the past three decades, while incomes for typical families grew by only 16 percent, according to College Board and Census data. Declining state funding has forced students to shoulder a bigger proportion of college costs; tuition has almost doubled as a share of public college revenues over the past 25 years from 25 percent to 47 percent. While a college education remains a worthwhile investment overall, the average borrower now graduates with over \$26,000 in debt. Only 58 percent of full-time students who began college in 2004 earned a four-year degree within six years. Loan default rates are rising, and too many young adults are burdened with debt as they seek to start a family, buy a home, launch a business, or save for retirement.

Today, President Obama outlined an ambitious new agenda to combat rising college costs and make college affordable for American families. His plan will measure college performance through a new ratings system so students and families have the information to select schools that provide the best value. And after this ratings system is well established, Congress can tie federal student aid to college performance so that students maximize their federal aid at institutions providing the best value. The President's plan will also take down barriers that stand in the way of competition and innovation, particularly in the use of new technology, and shine a light on the most cutting-edge college practices for providing high value at low costs. And to help student borrowers struggling with their existing debt, the President is committed to ensuring that all borrowers who need it can have access to the Pay As You Earn plan that caps loan payments at 10 percent of income and is directing the Department of Education to ramp up its efforts to reach out to students struggling with their loans to make sure they know and understand all their repayment options.

### **A Better Bargain for the Middle Class: Making College More Affordable**

#### **Paying for Performance**

Tie financial aid to college performance, starting with publishing new college ratings before the 2015 school year. Challenge states to fund public colleges based on performance.

Hold students and colleges receiving student aid responsible for making progress toward a degree.

#### **Promoting Innovation and Competition**

Challenge colleges to offer students a greater range of affordable, high-quality options than they do today.

Give consumers clear, transparent information on college performance to help them make the decisions that work best for them.

Encourage innovation by stripping away unnecessary regulations.

## **Ensuring that Student Debt Remains Affordable**

Help ensure borrowers can afford their federal student loan debt by allowing all borrowers to cap their payments at 10 percent of their monthly income.

Reach out to struggling borrowers to ensure that they are aware of the flexible options available to help them to repay their debt.

## **Pay Colleges and Students for Performance**

The federal government provides over \$150 billion each year in student financial aid, while states collectively invest over \$70 billion in public colleges and universities. Almost all of these resources are allocated among colleges based on the number of students who enroll, not the number who earn degrees or what they learn. President Obama's plan will connect student aid to outcomes, which will in turn drive a better, more affordable education for all students:

- **Tie Financial Aid to College Value:** To identify colleges for providing the best value and encourage all colleges to improve, President Obama is directing the Department of Education to develop and publish a new college ratings system that would be available for students and families before the 2015 college year. In the upcoming reauthorization of the Higher Education Act, the President will seek legislation allocating financial aid based upon these college ratings by 2018, once the ratings system is well established. Students can continue to choose whichever college they want, but taxpayer dollars will be steered toward high-performing colleges that provide the best value.
- **New College Ratings before 2015.** Before the 2015 school year, the Department of Education will develop a new ratings system to help students compare the value offered by colleges and encourage colleges to improve. These ratings will compare colleges with similar missions and identify colleges that do the most to help students from disadvantaged backgrounds as well as colleges that are improving their performance. The results will be published on the College Scorecard. The Department will develop these ratings through public hearings around the country to gather the input of students and parents, state leaders, college presidents, and others with ideas on how to publish excellent ratings that put a fundamental premium on measuring value and ensure that access for those with economic or other disadvantages are encouraged, not discouraged. The ratings will be based upon such measures as:
  - Access, such as percentage of students receiving Pell grants;
  - Affordability, such as average tuition, scholarships, and loan debt; and
  - Outcomes, such as graduation and transfer rates, graduate earnings, and advanced degrees of college graduates.
- **Base Student Aid on College Value by 2018.** Over the next four years, the Department of Education will refine these measurements, while colleges have an opportunity to improve their performance and ratings. The Administration will seek legislation using this new rating system to transform the way federal aid is awarded to colleges once the ratings are well developed. Students attending high-performing colleges could receive larger Pell Grants and more affordable student loans.
- **Engage States with a Race to the Top for Higher Education that Has Higher Value and Lower Costs:** The President requested \$1 billion in Race to the Top funding to spur state higher education reforms and reshape the federal-state partnership by ensuring that states maintain funding for public higher education. About three-quarters of college students attend a community college or public university, and declining state funding has been the biggest reason for rising tuition at public institutions. The Race to the Top competition will have a special focus on promoting paying for value as opposed to enrollment or just seat time. States typically fund colleges based on enrollment rather than on their success at graduating students or other measures of the value they offer. There are notable exceptions, like Tennessee, Indiana and Ohio, which fund colleges based on performance. To build on their examples, the President's plan would also encourage states to provide accelerated learning opportunities, smooth the transition from high school to college and between two- and four-year colleges, and strengthen collaboration between high schools and colleges.
- **Reward Colleges for Results with a Pell Bonus and Higher Accountability:** To encourage colleges to enroll and graduate low- and moderate-income students, the President will propose legislation to give colleges a bonus based upon the number of Pell students they graduate. And the Administration will prevent the waste of Pell dollars by requiring colleges with high dropout rates to disburse student aid over the course of the semester as students face expenses, rather than in a lump sum at the beginning of the semester, so students who drop out do not receive Pell Grants for time they are not in school.

- **Demand Student Responsibility for Academic Performance:** To ensure students are making progress toward their degrees, the President will also propose legislation strengthening academic progress requirements of student aid programs, such as requiring students to complete a certain percentage of their classes before receiving continued funding. These changes would encourage students to complete their studies on time, thereby reducing their debt, and will be designed to ensure that disadvantaged students have every opportunity to succeed.

### Promote Innovation and Competition

A rising tide of innovation has the potential to shake up the higher education landscape. Promising approaches include three-year accelerated degrees, Massive Open Online Courses (MOOCs), and “flipped” or “hybrid” classrooms where students watch lectures at home and online and faculty challenge them to solve problems and deepen their knowledge in class. Some of these approaches are still being developed, and too few students are seeing their benefits. The federal government can act as a catalyst for innovation, spurring innovation in a way that drives down costs while preserving quality.

To promote innovation and competition in the higher education marketplace, the President’s plan will publish better information on how colleges are performing, help demonstrate that new approaches can improve learning and reduce costs, and offer colleges regulatory flexibility to innovate. And the President is challenging colleges and other higher education leaders to adopt one or more of these promising practices that we know offer breakthroughs on cost, quality, or both – or create something better themselves:

- **Award Credits Based on Learning, not Seat Time.** Western Governors University is a competency-based online university serving more than 40,000 students with relatively low costs— about \$6,000 per year for most degrees with an average time to a bachelor’s degree of only 30 months. A number of other institutions have also established competency-based programs, including Southern New Hampshire University and the University of Wisconsin system.
- **Use Technology to Redesign Courses.** Redesigned courses that integrate online platforms (like MOOCs) or blend in-person and online experiences can accelerate the pace of student learning. The National Center for Academic Transformation has shown the effectiveness of the thoughtful use of technology across a wide range of academic disciplines, improving learning outcomes for students while reducing costs by nearly 40 percent on average. Carnegie Mellon University’s Open Learning Initiative has developed a hybrid statistics course used at six public universities, and its students performed as well as their peers in a traditional course in only 75 percent of the time. Arizona State University’s interactive algebra lessons helped students perform 10 percent better, despite meeting half as often, and at a lower cost. The University of Maryland redesigned an introductory psychology course, reducing costs by 70 percent while raising pass rates. New York’s Open SUNY initiative brings together every online program offered system-wide, helping students complete more quickly.
- **Use Technology for Student Services.** Online learning communities and e-advising tools encourage persistence and alert instructors when additional help is needed. Technology is enabling students from across campuses and across the world to collaborate through online study groups and in-person meet-ups. MOOC-provider Coursera has online forums in which the median response time for questions posed by students is 22 minutes. To help students choose the courses that will allow them to earn a degree as quickly as possible, Austin Peay State University has developed the “Degree Compass” system that draws on the past performance of students in thousands of classes to guide a student through a course, in a similar manner to the way Netflix or Pandora draw on users’ past experience to guide movie or music choices.
- **Recognize Prior Learning and Promote Dual Enrollment.** Colleges can also award credit for prior learning experiences, similar to current Administration efforts to recognize the skills of returning veterans. Dual-enrollment opportunities let high school students earn credits before arriving at college, which can save them money by accelerating their time to degree.  
To help colleges innovate and improve quality and outcomes, the Administration will:
- **Empower Students with Information:** New college ratings will help students compare the value offered by different colleges. The Department of Education will enlist entrepreneurs and technology leaders with a “Datapalooza” to catalyze new private-sector tools, services, and apps to help students evaluate and select colleges. The effort will be complemented by earnings information by college that will be released for the first time on Administration’s College Scorecard this fall.

- Seed Innovation and Measure What Works:** To demonstrate what works, President Obama has proposed a new \$260 million First in the World fund to test and evaluate innovative approaches to higher education that yield dramatically better outcomes, and to develop new ways for colleges to demonstrate that they are helping their students learn. In addition, the Department of Labor is planning to grant an additional \$500 million to community colleges and eligible four-year colleges and universities next year. A portion of these resources will be used to promote accelerated degree paths and credentials that would drive more high-quality and affordable options for adult workers and students. Through these efforts, the Administration will work with business and philanthropy to support industry partnerships to enrich student learning with valuable job exploration and experience.
- Reduce Regulatory Barriers:** The Department will use its authority to issue regulatory waivers for “experimental sites” that promote high-quality, low-cost innovations in higher education, such as making it possible for students to get financial aid based on how much they learn, rather than the amount of time they spend in class. Pilot opportunities could include enabling colleges to offer Pell grants to high school students taking college courses, allowing federal financial aid to be used to pay test fees when students seek academic credit for prior learning, and combining traditional and competency-based courses into a single program of study. The Department will also support efforts to remove state regulatory barriers to distance education.

Finally, the President will challenge leaders in states, philanthropy, and the private sector to make their own commitments to improve college value while reducing costs. For example, states can redesign the transition to postsecondary education and commit to strategies to improve student learning and enhance student advising, such as hybrid learning pilots, adaptive learning platforms, and digital tutors. Philanthropists can create initiatives, pilots and prizes for colleges that advance competency-based education, accelerated degrees, and the integration of new technologies into on-campus teaching and learning. Investors and entrepreneurs can directly support and develop new technologies and innovations that accelerate student learning while evaluating the effectiveness of different approaches. And employers and industry groups can collaborate with postsecondary institutions and new providers to develop high-quality, low-cost degrees in growing sectors of the economy, offer work-based learning experiences to students, and hire graduates who demonstrate the knowledge and skills employers need.

#### Ensure Student Debt Is Affordable

While bringing down costs for current and future college students, President Obama will also help students with existing debt to manage their obligations. Income-driven repayment plans allow borrowers to take responsibility for their federal student loan debt with more flexible repayment terms, while helping professionals like teachers and nurses who take on critical jobs in our society that require significant education but may result in modest salaries. These plans allow students to fully repay their student debt on a sliding scale that adjusts monthly payments based on changing income and growing families. Nearly two-thirds of people that currently participate in the income-driven repayment plans make less than \$60,000 a year. Currently, about 2 million of 37 million federal student loan borrowers are benefitting from income-driven plans.

- Make All Borrowers Eligible for Pay As You Earn:** To make sure that students and families have an easy-to-understand insurance policy against unmanageable debt now and in the future, the President has proposed allowing all student borrowers to cap their federal student loan payments at 10 percent of their monthly income. Currently, students who first borrowed before 2008 or have not borrowed since 2011 are not eligible for the President’s Pay As You Earn plan. In addition, the Administration will work with Congress to ensure that the benefits are targeted to the neediest borrowers.

**Launching an Enrollment Campaign for Pay As You Earn:** Beginning this fall, the Department of Education will contact borrowers who have fallen behind on their student loan payments, undergraduate borrowers with higher-than-average debts, and borrowers in deferment or forbearance because of financial hardship or unemployment to ensure they have the information they need to choose the right repayment option for them. Starting in 2014, the Department of Education and the Department of Treasury will work to help borrowers learn about and enroll in Pay As You Earn and Income-Based Repayment plans when they file their taxes. And to assist guidance counselors and other advisers who guide students through the process of selecting and financing their higher education, the Administration will launch a “one-stop shop” that will include important resources for choosing among various income-driven repayment options.